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MEMORANDUM ON THE

Industrial Situation After the War

The Garton Foundation

Revised and Enlarged Edition

JANUARY, 1919

48/907
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CANCELLED

HARRISON & SONS
Printers in Ordinary to His Majesty
ST. MARTIN'S LANE, LONDON, W.C. 2

University of Toronto

Privately circulated among Employers, Representatives of Labour, and public men of all parties, May—September, 1916.

Published as amended in the light of criticisms and suggestions received. First Edition (10,000 copies), October, 1916.

Revised and Enlarged Edition, January, 1919.

Preface to Revised Edition.

The scope and purpose of this Memorandum on the Industrial Situation are sufficiently indicated in the Preface to the first published edition, which is here reprinted. That edition has now been exhausted, but there is still a steady demand for the Memorandum both in this country and abroad, especially from officers and men serving with the colours. To meet that demand the present edition has been prepared.

It has been felt, however, that a mere reprint of the original edition would not suffice, if the Memorandum was to maintain its position as an attempt to present, within reasonable compass, an all-round survey of the problems arising from the industrial situation as affected by the war. The events of the last two years have revealed many new issues of which it is necessary to take account, and have emphasised others which have acquired a new importance since October, 1916. A very considerable amount of revision and addition was necessary, and the only question was the form which this revision should take.

The method adopted has been as follows :—

Section " A," *The Industrial Situation To-day*, has been entirely re-written. Most, if not all, of what was said under this heading remains true ; but the situation has been profoundly modified by the signing of the armistice, which has brought us into immediate contact with the problems of demobilisation and reconstruction, and by the development both of events and of ideas during the last two years. It was impossible to deal adequately with these new developments without recasting and enlarging this preliminary survey of the field.

In the case of Sections " B " and " C "—*The Effects of the War on the Industrial Situation,* and *The Problem and Some Remedies*—a less drastic method has been followed. The greater part of these sections has been reprinted verbatim from the original edition, with the exception of a very few verbal amendments, and the correction of figures which had become out of date. A few paragraphs, indicated by footnotes, have been entirely re-written, in order to bring the statements of fact into line with recent developments. The chief alteration in these sections, however, is the addition of a large number of new paragraphs. These additions contain (*a*) a brief statement of certain new facts, and of measures which have been taken to meet the difficulties pointed out in the original edition; (*b*) a note of any modification of the conclusions previously arrived at, suggested by two years' discussion and experience; (*c*) a brief discussion of certain facts and issues not mentioned in the original edition, which have come into increased prominence since it was published. In order that any reader who wishes to compare the two editions may be able to recognise the new matter at a glance, the original numbering of the paragraphs has been retained and the additions distinguished by a letter placed after the number of the paragraph. (Thus the paragraphs numbered 36A, 42A, 42B, etc., are all new matter).

Section " D," *The Fundamental Problem,* has been reprinted with little alteration or addition. The suggestions made in this section have, to a great extent, been followed in the reports of the Whitley Committee; but the purpose and utility of the Joint Industrial Councils now being formed is so imperfectly understood and so much a matter of controversy, that it seemed desirable to retain this analysis of the relations of

Employers and Employed, and of the possibilities of co-operation between them for the creation of a new industrial order, in its original form.

The argument of Section "D" is continued in Section "E," *Joint Industrial Councils and Trade Boards*, which replaces the Appendices to the original edition. This section, which is all new matter, contains a brief account of the most important recent developments in industrial organisation, with some discussion of the possibilities of future progress.

In view of the circumstances in which this edition appears, it is desirable to point out that the Memorandum is not put forward as a profession of faith by any political or economic group, nor as containing any definite and perfected programme. The group by whom it was originally produced comprised men representing very different types and very different phases of opinion, who were united only by the desire to find a practical way out of practical difficulties, and to contribute what they could towards the realisation of a fuller, happier, and worthier life, for the people of this country. The first published edition was prepared after careful collation of criticisms and suggestions received from some hundreds of labour leaders and employers, politicians, economists, and social workers. This revised edition is the result of two years' close association with representatives of all the above classes. The authors make no claim to have discovered any universal remedy for industrial ills. They claim nothing more than to have based every suggestion on an examination of facts, and to have tried, so far as possible, to consider the industrial problem as a whole, and as an integral part of the national life.

January, 1919.

Preface to First Edition.

This Memorandum is the work of a group of men who came together, at the instance of the Garton Foundation, for the purpose of discussing the industrial situation in this country at the close of the present war. The group included men of very varied views, in touch with both the Capitalist and Employing Classes and Organised Labour, as well as with financial, economic and administrative circles. As a result of their inquiries and of correspondence and discussion with representatives of all parties to Industry, they became convinced that the return from war to peace conditions would inevitably involve great difficulties, which might result, if not carefully and skilfully handled, in a grave outbreak of industrial disorder.

In the endeavour to find a solution of these difficulties, they were led to analyse the more permanent causes of industrial friction and inefficiency, and to seek the means by which these causes might be removed or their action circumscribed. It is their belief that these means can be found and that an emergency which threatened all classes of the community with serious loss and hardship may be used as an opportunity for placing the whole industrial life of the country on a sounder basis.

In that belief, this Memorandum was compiled. It has been the object of its authors to keep always in mind the human as well as the economic side of industry. They are conscious that this country has suffered much in the past from the habit of sectional thinking, which divides our national activities into water-tight compartments and regards the nation itself as composed of detached or hostile classes. The keener consciousness of corporate life, which is perhaps the most beneficial

result of the present struggle, has created an atmosphere in which it is easier to conceive of industry as an inseparable part of the life of the nation ; and of those concerned in industry, whether as employers or employed, as co-workers in the task of building up a future worthy of the sacrifices which have been made during the war.

The Memorandum has already been privately circulated, to a considerable extent, among employers of labour, leaders of working class opinion, and those who have taken a prominent place in the discussion of economic and social questions. A large number of criticisms and suggestions have been received, which have been collated, carefully examined and, in many cases, incorporated in the Memorandum. The general tone of its reception on all sides has been such as to encourage its publication as a contribution to public discussion of what is perhaps the most urgent question, after the immediate conduct of the war, with which the country is confronted to-day.

It is evident that in order to avert the threatened dangers and to take full advantage of the opportunity afforded by the circumstances of the war, with its upheaval of existing conditions and its challenge to accepted ideas, study of the questions involved must begin while the war is still with us. Many Government Committees and many non-official bodies are, in fact, already at work upon various aspects of the problem. There is, however, a danger that the number and complexity of the questions involved, and especially of those relating to the actual period of demobilisation, may divert attention from the broader aspects of industrial reconstruction and the fundamental principles of industrial policy. The authors of the Memorandum have endeavoured throughout to keep their eyes fixed upon the fundamental facts of industrial life and the

spirit by which it should be animated, treating the more detailed problems of demobilisation and reconstruction with a view to showing them in their right proportion and relation to the main issues.

The Trustees of the Garton Foundation (The Rt. Hon. A. J. Balfour, M.P., The Rt. Hon. Viscount Esher, G.C.B., and Sir Richard Garton) have permitted the devotion of its staff and resources to this work in the belief that sincere and intelligent inquiry with regard to these questions cannot fail to be of national service. While they do not in any way identify themselves with the conclusions arrived at by its authors, they believe that nothing but good can come of submitting them to the test of public discussion. In that belief they have sanctioned its publication in its present form.

Synopsis.*

A.—THE INDUSTRIAL SITUATION TO-DAY. (*1–12* in first edition.)

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The demand for a higher standard of life and opportunity. (*2*)
The relation of industrial efficiency to social conditions. (*3*)
Industrial Unrest: its meaning and causes. (*4–6*)
The meaning of "Wage-Slavery." (*7*)
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Reform of Industry from within. (*11–12*)

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II.—**Earnings:** (*26–39*)

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* The numbers in brackets relate to paragraphs, not to pages.

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(ii) The Constructive Problem: (*71–72a*)

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The great opportunity. (*72–72a*)

If the measures by which the emergency is handled can be such as will make for permanent reconstruction, so much the better. (*73*)

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D.—THE FUNDAMENTAL PROBLEM. (*133–180*)

To understand the fundamental problem we must examine the essentials of industrial welfare. (*133*)

Material prosperity at once necessary and subordinate to social progress. (*133a*)

The foundation of industrial welfare is production, its volume, its quality, and the conditions of work. (*134*)

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INCREASED PRODUCTION, INCREASED SAVING, INCREASED CONFIDENCE are the keys to the industrial problem. (*136*)

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In dealing with an immediate problem we must work with the materials at hand. Gradual progress achieved by co-operation is better and more certain than revolutionary methods. (*154*)
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E.—JOINT INDUSTRIAL COUNCILS AND TRADE BOARDS. (*181–208*)
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A.—The Industrial Situation To-day.

(This Section replaces Paragraphs 1 to 12 of the First Edition.)

1. In any survey of the existing industrial situation it is necessary to keep constantly in mind the fact that we are just, but only just, entering upon the transition from war to peace. On the one hand, industrial conditions are still governed, to a great extent, by the special demands and circumstances of a state of war, which will, in most cases, gradually disappear during the next few months. On the other hand, there are many effects of the war which will not be fully or generally felt until the return to peace conditions is actually effected, and the abnormal stimulus supplied by the war has ceased to operate.

The period of the war has been on the whole a period of swelling profits and rising wages, and this fact has, in some measure, obscured the realities of the situation. For four and a half years the country has been living, in great part, on its accumulated resources and its credit. To a very large extent the production of goods for domestic use, or for exchange in foreign markets, has been suspended, and the industrial energies of the country have been transferred to the production of munitions and of naval and military equipment, paid for by loans which constitute a heavy charge upon future productivity. Both the plant employed in Industry and the organisation of Industry itself have been transformed for the purpose of supplying war-time needs, and have now to be readjusted to the requirements of peace.

With the return of peace, we may expect a revival of the civil demand ; but the satisfaction of this demand will be hampered by financial conditions and by the

world shortage of raw materials and transport. Meanwhile we are faced by the task of re-instating in civil employment those workers who have been withdrawn from their occupations to serve as soldiers and sailors, or to work in the munition shops. The difficulties involved in the readjustment to peace conditions will be more fully discussed in a later section of this Memorandum, but there can be no question that, while not insuperable, they are numerous and serious.

2. Nor is this all: there is a very strong feeling among all classes that a mere return to the conditions which existed before the war would be a tragic anti-climax. We can cease to regard the war as a disaster only if it becomes the starting point of a new era in national as well as international affairs, and in any reconstruction of national life, industrial questions must necessarily play an important part. It is an essential condition of any real advance that the standard of life and opportunity among large sections of the people should be substantially improved, and no mere redistribution of the national income will secure this end. In the first place, the total available for distribution is insufficient. In the second place, it is impossible to proceed with redistribution beyond a certain point, without a grave danger of dislocating the machinery of production and drying up the stream of wealth at its source. If we are to effect any real and lasting improvement, we must aim at more efficient production as well as more equitable distribution of wealth, and this despite the economic difficulties to which reference has been made.

3. It is necessary to emphasise this point, because the relation of industrial efficiency to social conditions is often overlooked; but it is equally necessary that its importance should not be exaggerated. "Efficiency"

is a relative term, and the value of industrial efficiency will be determined by the character and purpose we assign to Industry itself. There are those to whom material welfare is the sole criterion of national prosperity and they imagine that the whole problem of reconstruction can be solved by the scientific organisation of Industry for mass production, enabling large profits to be made and high wages to be paid. To take this view is simply to ignore the plain facts of the situation. The present demands of Labour go far beyond mere questions of wages or even of hours and working conditions. The official programme of the Labour Party includes the nationalisation of land, railways, coal mines, shipping, power stations, and the business of Life Assurance, together with State Control over the import of raw materials, the machinery of production and distribution, prices, wages, and profits. The Guild Socialists propose to constitute each several industry an autonomous unit, co-equal with the State, based on communist principles as regards ownership, and possessing very wide powers over its members. The "rank-and-file" movement, which is rapidly growing in strength, aims at more direct and forcible methods of expropriation, and the conversion of every individual concern into a self-administering industrial unit. In each case, though in varying degree and with still more widely varied methods, the object is a complete revolution of the existing industrial system, and this purpose is inspired not merely by the desire for a larger share of material wealth, but by a profound discontent with the social conditions and human relationships which the industrial system has produced.

The real strength of the body of considered opinion behind any of these programmes is uncertain; but the same discontent with existing conditions, embracing

many matters other than the level of earnings, is at the bottom of the general industrial unrest which was with us before the war, has come to the surface on more than one occasion during the so-called " industrial truce," and is a dominant factor in the situation to-day. The significance of this unrest has been accentuated by its close connection with political instability. The use of industrial organisation to obtain political ends has received a strong impetus from recent events on the Continent, and the influence of this idea may be seen as plainly in the Seamen's Boycott as in the proposals occasionally heard for the creation of Workmen's and Soldiers' Councils in this country. It is a development which brings us nearer to the conception of real class-warfare than we have been for many hundred years.

4. Industrial unrest, however, is not an evil in itself, if the discontent from which it springs has any real foundation. It is only by becoming discontented with what is wrong that men are brought to seek something better. Unrest is merely the symptom of an evil, and until the source of that evil has been found and eradicated—whether it be in wrongdoing or in misunderstanding—we shall not make much progress with the task of reconstruction, nor shall we have much prospect of overcoming the difficulties of the economic situation. The common assumption that it is only the propertied classes who have anything to lose in an outbreak of industrial conflict or class-warfare is untrue. The methods of conflict are very effective for pulling down ; they are both ineffective and uncertain as a means of building up. The attempt to buy off trouble by partial concessions will always end in failure ; but with so much practical work to be done, it would be folly to waste our energies in conflict if any genuine basis for co-operation can be found.

5. In these circumstances it is a matter of urgent practical importance to discover, if possible, what is at the bottom of the widespread discontent with the present industrial system, and what is the real motive both of those who advocate and those who resist its abolition. It is the more necessary to do so because comparatively few men of any class or party are in the habit of thinking out clearly their own attitude towards controversial questions. The great majority get little further than a vague feeling that there is something wrong, or that things are all right as they are, and leave it to their party leaders to express this feeling in a detailed programme.

If we are going to do this, it is no good being afraid of abstractions. Man is a thinking animal and his general ideas colour his attitude towards concrete questions. The majority of those engaged in Industry may not consciously look much further than the question of profits and wages, but the men who exert widespread influence and sway the action of the majorities are the men with big ideas as to the character and functions of Industry. If there is anything wrong with the industrial system it is because our conceptions of Industry have been false.

We must begin, therefore, by getting clearly into our minds what Industry really means. Very briefly, it is the means whereby men combine to produce for themselves and for each other the material things which are necessary for the preservation and enjoyment of human life. Further, it represents to most of those engaged in it, the chief outlet for that desire to make something or get something done, which is what is meant by the creative instinct. The test of any industrial system must be : first, the success which it achieves in supplying the public need for articles of use or beauty ; secondly,

the opportunity which it affords to those engaged in it to put forth whatever power is in them, to feel, in the cant phrase, that they are doing their bit.

6. We have now to ask how far this conception of Industry is recognised, consciously or unconsciously, by those engaged in it as manufacturers, traders, and workpeople. In so doing we may ignore the knaves and slackers who would exist under any system. It is only when the man of average decent character and good intentions gets false ideas into his head that things go seriously wrong.

The average business man would almost certainly tell us that he was not in business for his health, he was out to make money. That is quite true, and there is nothing discreditable in it. But in suggesting that the making of money was his sole purpose, he would probably be doing himself something less than justice. Stronger even than the desire for wealth and the power and comfort derived from wealth, is the desire to succeed. The man who has made enough money for the satisfaction of his personal desires goes on making more, chiefly because money is the tangible criterion of success. He is proud of his wealth chiefly because it represents the result of special knowledge—acquired or inherited—of hard work, foresight and prudence, willingness to take risks, and prompt decision in cutting losses. Moreover, his experience has taught him that he can build up a lasting concern only by adequate service of public requirements, and in general he takes a real pride in thinking that the goods he produces or the services he renders, are in advance of the minimum standard which the public will accept.

Here, unfortunately, he has generally stopped short. It has not occurred to him that the workmen he employs can have any other interest in their work

than the wages he pays them, or that the organisation of Industry as a whole should be guided by any other principle than that of affording ample opportunity for the business man to display his own special aptitudes.

To the capitalist who is not also an *entrepreneur*—the man who simply invests his money in an undertaking which he takes no share in directing—neither the idea of public service nor that of accomplishment makes much appeal. His idea is usually nothing more than that of getting a good return on his investments, without much thought as to the manner in which that return is obtained.

In the case of the workman there is usually present either some active interest in his work, or a vague feeling of discontent that his work contains so little interest. The fact that the demands of Labour have centred so largely round questions of wages is due not only to the fact that the wages paid in many trades have been insufficient for the maintenance of a decent standard of life, but to the fact that much of the work done under the modern industrial system is so mechanical and uninspiring that wages seem the only thing worth bothering about. There is a steadily increasing conviction among the most intelligent workers that what is wrong with the industrial system extends to its effect upon their life and outlook as well as to the wages received; but the worker does not, as a rule, regard his relations with his employer as involving anything more than payment for work performed, nor does he care to ask where any increase of wages is to come from.

Thus, while both the employer and the workman assess their own share in Industry in terms of life as well as in terms of money, the relations between them are governed, broadly and generally speaking, only by

a money standard. To the employer Labour is simply a commodity having a market value. To the worker, the employer is simply a buyer—harsh or generous as the case may be—of the sole commodity he has to sell. There are plenty of firms in which a very different relationship obtains and in whose work the spirit of co-operation for public service finds active expression ; but the general effect of the existing system has been to emphasise that side of employment which stamps it as a mere money bargain.

7. It is the revolt, conscious or unconscious, against this conception of Industry which has led to the invention of the term " wage-slavery." Obviously, the mere fact that one man receives from another payment for services performed does not constitute slavery in any ordinary acceptance of that word. Nevertheless " wage-slavery " is no mere rhetorical expression. It means something, and it is essential that we should understand what it means.

In the first place, wage-slavery means that the conditions of modern Industry render it impossible for any large number of men to work on their own account. They are driven not by choice but by necessity into hiring out their strength or skill to those who possess sufficient capital for the erection of factories and plant and the purchase of raw materials. Moreover, since a man must eat to live, and Capital possesses the greater staying power, the conditions of the bargain become so unfavourable to the operative that he ceases, in effect, to be a free agent at all. He must take what is offered him or starve. Within recent years the position of Labour has been partially redressed by the powerful Trade Union organisations and the establishment of collective bargaining ; but many trades are still unorganised, and in the most highly organised trades the

workers are still at a disadvantage through the comparative weakness of their reserves. The wages paid may or may not be adequate for the maintenance of a reasonable standard of life; the working conditions may be good or bad; the point is that they are, to a great extent, imposed upon the worker as the result of his inferior bargaining power.

In the second place, wage-slavery implies that what the worker sells, in return for the means of subsistence, is not merely a commodity, but a part of his life. His choice of an occupation, while theoretically free, is actually determined in most cases, by industrial conditions over which he has no control. In accepting employment, he not only engages to perform a specified amount of work, but parts with his power to determine the nature and quality of the product he assists to produce, or to stamp it, as in the days of handicrafts, with his own personality. He is restricted, in most cases, to the performance of some single detail in a complicated process the other parts of which he is not generally invited to understand, and sinks from a producer into a machine, or a fragment of a machine. The reward of his work is a purely monetary reward; he does not feel, and is not expected to feel, any share in the joy of creation or of useful service. Here again there are many exceptions, many cases in which the workers are encouraged to understand and to take a pride in the product of their joint effort. We can speak here only of the general tendency of the system.

But there is another side to the picture. We have seen that the fundamental ground of the worker's complaint against the employer is not that he is richer than himself, but that the employer's riches have placed him in the position of an autocrat. In like manner the employer's real grievance against the worker is not that

he asks for more money, but that he asks for nothing but money. The worker as well as the employer has too readily accepted the idea of employment as a money bargain. The revolt against wage-slavery has either been unconscious, or has been diverted exclusively into the advocacy of substituting some new form of organisation for the present industrial system. It has not occurred to the workers to go to the employer with a demand, not merely for adequate remuneration, but for a share in the direction of the industry, for fuller knowledge of the part played in production by Capital, Management, and Labour respectively, and for the right to participate in rendering the industry more efficient in creating the stream of wealth from which profits and wages are alike derived, and more serviceable in the fulfilment of public needs. Those employers who have striven to place their relations with their workpeople on a higher basis than the money bargain, to take the workers into their confidence and create a real spirit of self-respecting co-operation in useful service, have too frequently been met—if not by their own employees, by Labour as a whole—with an undeserved suspicion of their good faith, and a denial of any possibility of co-operation. So long as the workers regard everything outside questions of wages and hours as matters in which they have no interest, they may be said to be not merely wage-slaves, but slaves who hug their chains.

8. This point is the more important because the essential features of wage-slavery are capable of reproduction under other systems than that which at present exists. The control of Industry by the State or by Guilds, unless inspired by a high and true conception of what Industry means to the community and to the individual, might easily become as crushing a weight upon personal freedom and initiative, as deadening to creative effort,

and as provocative of sectional friction, as the present industrial system at its worst.

It is, indeed, possible to attach too much importance to the form of our industrial organisation. The purpose by which Industry is inspired is a matter of ethics. The adoption of any particular system for carrying out that purpose is a matter of expediency. The present system is based on the assumption that the market rate of prices, profits, and wages affords on the whole the best working indication of the public need for particular goods and services. Whether State Control or Guild Socialism would, in practice, result in better service, is a question on which there is much honest, as well as some interested, difference of opinion. It appears that we are likely to see a big experiment in public ownership in the immediate future ; * it would be exceedingly interesting to see some typical industry organised experimentally on Guild lines. But whether the existing system of private enterprise remains or is superseded, the idea that Industry can be successfully based on a mere money bargain between two unrelated or antagonistic interests must go. No one would seriously maintain to-day that the political life of the nation could be successfully based on a conflict, or even a balance of power, between well defined classes, carefully segregated into water-tight compartments. The development of our political institutions, with all its shortcomings, represents the evolution of the idea that national life is an organic whole, in which it is the privilege and the duty of every citizen to share, both as a recipient and a contributor, and that this participation can only be secured when every citizen takes a part, through his freely chosen representatives, in the

* *i.e.*, The nationalisation of the railways.

direction of national activities. If Industry is to be fitted into our conception of national life, it is necessary that it should follow the same course. We have recognised in theory, and to a great extent in practice, the bond of partnership implied in political association—that the nation as a whole is the loser if any class of its citizens fails to share either in the benefits or the obligations of national life. We have yet to realise the partnership of Industry.*

9. What, exactly, does all this mean in actual practice? It does not mean that there is anything fundamentally wrong in a man receiving the fruits of his labour in the form of wages or piece-rates; in the adoption of prices determined by free competition as the index of demand; in the receipt of profits as the reward of skilful management, or judicious investment. Wages, prices, and profits are part of the existing mechanism of production and distribution, and the case for their abolition or retention must be argued on practical, and mainly on economic, grounds. Neither does this Partnership of Industry mean that the functions of Capital, Management, and Labour must or should be merged; that no useful part can be played by the investor, or that the technical side of a business can be removed from expert control.†

What we do imply by the Industrial Partnership is that practical recognition should be given to two plain facts—the fact that Industry exists for the supply of public needs, and the fact that for the great majority

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* No reference is here intended to "Co-partnership" or profit-sharing schemes as such. Whether such schemes represent a possible or desirable method of industrial organisation is a separate and much less important question.

† For further discussion of the functions of Capital, Management, and Labour, *see* paragraph 160 post.

of men industrial service, of hand or of brain, represents one of the chief elements in their life. These are truisms to which everyone will assent ; but to carry them out in practice will involve a transformation, though not necessarily a revolution, of our industrial life. It will affect both the relation of Industry to the community, and the relation between the parties to Industry as such.

10. If we accept the idea of public utility as the criterion of industrial success, it is obvious that we must definitely reject the idea of personal gain as an end in itself. We may find it inexpedient to place any limit upon the reward, in profits or wages, of skill, knowledge, or effort ; but we shall most carefully discourage and check any attempt to obtain personal advantage without rendering equivalent service, whether it take the form of monopolistic exploitation by employers, or of demands by powerful Labour organisations which can only be satisfied at the expense of their weaker brethren. We shall insist that a concern, or an industry, which cannot pay its way and at the same time pay a living wage, shall amend its methods or disappear. We shall exact from manufacturers and workers alike the largest possible output consistent with proper conditions of work and life ; but we shall measure this output not only by quantity but by quality, by a high standard of design and workmanship. We shall discourage competition, whether between manufacturers or between different classes of labour, which is based on a cheap price obtained at the expense of inferior quality in the product, a low standard of life in the producer, or methods of production which are socially undesirable.

11. This, however, is not all. Since industrial service is a part of human life as well as a means of supplying human needs, the reformation of Industry must proceed

from within, not from without. The imposition of standards by an external authority may place a check upon abuses, but cannot build up character, or ensure willing service. What is needed is that Industry should organise itself for the purpose of raising both the standard of production and the standard of industrial life and character to a higher level. At the present time the great industrial organisations are mainly sectional and defensive. We recognise that the great Employers' Associations have done much to eliminate waste and raise the standard of production, and that the Trade Unions have done invaluable work in securing better wages, better conditions, and better treatment for the workers. But neither of these groups are concerned with the welfare of industry as a whole, and the relations between them are those of a balance of power rather than of co-operation. Their strength is negative and restrictive rather than positive and creative. The Employers' Associations can, if they choose, make a strong fight for industrial autocracy ; they can impede for many years the realisation of the workers' desire for a larger share in the control, as well as in the rewards of Industry ; but they cannot compel that willing and intelligent service which will be needed if we are to overcome the difficulties of the industrial situation. The Trade Unions can, if they are willing to pay the price, dislocate the whole industrial machine and bring down the existing system with a crash ; but they cannot, by themselves, rebuild it on a firmer basis.

If a reformation of Industry is to be possible on the lines indicated above, these existing organisations must be not replaced but supplemented by some form of wider organisation, representative of each industry as a whole, and concerned not merely with adjusting the terms of an industrial bargain, but with the task of

seeing that the industry is adequately performing its task of public service—turning out the best possible work in the best possible way—and that those who are engaged in the industry are not merely receiving an adequate and fairly proportioned reward for their services, but working under conditions which make them not slaves or machines, but intelligent and self-respecting members of the industrial community, with a pride in their work and an understanding of its purpose.

Such an organisation must necessarily be democratic in a true sense of the word. It will not obliterate distinctions of function, but it will give to every man engaged in Industry a share in the control of his working life and in the direction of the industrial effort—a sense at once of liberty and of responsibility. If the average man can be trusted with a voice in the government of the country, he can be trusted with a voice in the government of his trade ; nor need the one interfere with the expert functions of Management any more than the other interferes with the expert functions of administration. It is only by such participation that men can feel either that their rights are secure or that their obligations are binding.

12. In section " D " of this Memorandum will be found the outlines of such a scheme, based on a more detailed analysis of the present state of industrial organisation. To some critics of the original edition this scheme—which has been followed more or less closely in the constitution of the Joint Industrial Councils recently set up—appeared to go too far ; to others it appeared not to go far enough. To the former we reply that the times call for courage. If we are to meet at once the requirements of the economic situation and the universal aspiration towards a better national life, we must be prepared to see changes and to run risks. To critics

of the other class we reply that if we are to deal with the urgent requirements of the existing social and economic situation quickly and effectively, we need to obtain the widest possible measure of common consent and co-operation, even among those who differ as to the ideal structure of society. The scheme proposed is at once based on the utilisation of existing material and sufficiently elastic to develop along whatever lines may be indicated as best by discussion and experiment. Whatever may be the industrial developments of the future, we believe this to be the next step, as indicated by an examination both of our permanent industrial problems and of those special difficulties which have been created by the war. What these problems and difficulties are, we have now to examine.

B.—The Effects of the War on the Industrial Situation.

13. The problems arising directly from the effects of the war are, in themselves, sufficiently serious. To accomplish the change from war to peace conditions without undue friction or loss, to accommodate our methods and organisation to the new burdens and altered circumstances, is a task as heavy as any trading community has had to face.

14. The industrial effects of the war may be grouped under five main heads:—Employment; Earnings; Distribution of Earnings; Capital and Credit; Spirit and Temper.

I.—EMPLOYMENT.

15. The problem of Employment has two phases: (1) the Supply of Labour; and (2) the Demand for Labour.

(1) The Supply of Labour.

(*a*) DEMOBILISATION.

*16. The first factor to be considered is the return of demobilised men to civil life. It is, of course, impossible to state the number of such men with absolute accuracy; but the estimate formed by the Ministry of Labour is that roughly 4,000,000 officers and men of the Army and Navy will receive their discharge from the services.

17. The steps which are being taken to prevent a flooding of the Labour Market as the result of demobilisation are dealt with in Section "B" (paras. 79-87).

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* This and the following paragraph have been re-written

(*b*) Diminution of Government Orders.

18. In addition to men actually under arms, those who have been diverted from their normal employment to the manufacture of munitions and material of war will have to return to civil industry as the Government orders for naval construction, artillery, ammunition, and equipment, are reduced to the peace scale.

(*c*) Stopgap and Emergency Workers.

*19. The necessities of the war have called into active employment a large number of people, especially women, who had not previously been engaged in Industry. Some of these have been introduced into various trades to take the place of men serving with the colours. Others have been called into industrial service by the abnormal demand for munitions of war, and for other articles needed to supply the requirements of a state of war. The actual addition to the labour force of the country is difficult to estimate, as the demand for special forms of labour has been met in part by women remaining in employment who would in the ordinary course have retired from industry; in part by the enrolment of women previously engaged in non-productive employment (in the industrial sense); and in part by the transfer of both men and women from trades with which the war interfered to those which it has stimulated. The total number of additional women drawn into industry and commerce during the war is estimated by the Civil War Workers' Committee at very nearly 1,500,000.† Of these, a certain number will probably return to domestic life when the special

* This paragraph has been re-written.

† The Reports of the Civil War Workers' Committee are numbered Cd. 9117, and Cd. 9192. Price 2d. and 3d. respectively.

circumstances which induced them to seek employment have disappeared. A large proportion, however, will probably desire to remain in commercial or industrial employment, either because they are so compelled by economic necessity, arising from the loss of the bread-winner or the increased cost of living, or because they have learned to prefer the conditions of their new employment to those of economic dependence, or domestic service. Men previously employed in other forms of Industry, and juvenile workers introduced during the war will, in practically all cases, have to seek other employment when their special war work comes to an end. The provisional figures supplied by the Ministry of Munitions to the Civil War Workers' Committee give a rough estimate of the total displacement. On this estimate, 480,000 men and 420,000 women engaged in the production of destructive munitions, will lose their employment. Of those persons coming under the head of " munition workers," who are employed on work which can be used for civilian purposes, there are about 600,000 men and 85,000 women who are classed as " dilutees " and " substitutes." The majority of the " dilutees " will presumably be displaced, but it is considered probable that many of the " substitutes " will be retained. It must be remembered also that a number of workers of both sexes which it is impossible to estimate, will be displaced from offices and from trades other than those in the munitions category, on the return of the men whose places they have taken.

(ii) **The Demand for Labour.**

20. The demand for Labour will arise from three sources ; one directly connected with the war, the others representing a return to normal conditions.

(*a*) Repair and Reconstruction Demand.

21. The repair and replacement of property damaged or destroyed during the course of the war will be an important factor in providing immediate work. In this country the amount of property destroyed is comparatively small ; but there will be a demand for new tonnage to replace vessels sunk, for commercial motors and other material to replace those used for war purposes. Roads cut up by use for heavy military transport will require mending. Plant and machinery adapted to war purposes or left idle through stagnation of trade will need alteration and repair. Repairs and renewals postponed for the period of the war will have to be carried out. Depleted trading and domestic stocks will have to be replenished. In the devastated districts of Belgium, France, and Poland, reconstruction on a big scale will be necessary. Roads, bridges, railways, factories, machinery, houses, churches, will have to be reconstructed or replaced. In all this work our foundries and factories will find their opportunity.

(*b*) Revival of Private Demand.

*22. For some time to come private demand will be held in check by financial stringency. For reasons discussed in a subsequent paragraph, prices will remain high, and the buying power of many people whose incomes have not increased in proportion to the increased cost of living, will be less than it was before the war. The very large profits made during the war in certain trades will no longer be obtained. The Income Tax will remain at its present level, or more probably, go still higher. At the same time the Government will be obliged to go on borrowing money until demobilisation

* This paragraph has been re-written.

has been completed and the return to normal conditions effected. The necessity for saving money and investing it in Government Stock or bonds will, therefore, be just as great as during the war. On the other hand, there is a certain proportion of private demand which has been postponed simply because the goods or services in question could not be obtained during the war, and this demand will revive to some extent as these goods and services become available. The trade demand for industrial material will certainly be brisk, at any rate for a time, because many manufacturers and contractors have made money, built up reserves, and are only awaiting an opportunity to replenish their plant and expand their business.

(*c*) Revival of Foreign Trade.

*23. The possibilities of a revival in foreign trade have been adversely affected by the prolongation of the war and the effects of the unrestricted submarine campaign. Owing to the necessity of using all the limited tonnage available for commercial purposes on a few routes of special importance, we have lost touch with many of our foreign markets, which have fallen into the hands of the Americans and Japanese. Moreover, several semi-industrial neutral countries have been compelled to manufacture for themselves goods which they previously imported, and will continue to do so. Finally, Russia must for the time being be excluded from the list of possible markets. In the endeavour to regain our lost trade, we shall be handicapped by the fact that the cost of production in this country has been greatly increased by the financial effects of the war, so that we have lost the advantage we formerly held in this respect. We shall be further handicapped by the fact

* This paragraph has been re-written.

that a considerable proportion of the available tonnage will be employed for many months in the process of demobilisation. Taking all these factors together, it is improbable that our export trade can, for a considerable time, reach anything like its old level, though the decrease may be cloaked superficially by the general rise in prices. A certain revival may, however, be anticipated. Although the populations of many neutral countries have, generally speaking, been hard hit by the war, there are some sections which have made money and are likely to be good buyers, especially of articles which the war has prevented them from obtaining. Since Germany and Austria will probably be crippled for some time to come, as regards their export trade, there will be an opportunity of supplying foreign markets with goods formerly obtained from those sources. Moreover, our indebtedness in America, while a source of financial weakness, will act as a stimulus to the export trade, since it has sent the exchanges up to a point at which it will be more profitable to export than to import. The Overseas Dominions and South America, from whom we shall still have to buy food and raw materials in large quantities, will be able to absorb a large part of our surplus products, and the necessity of paying our way will stimulate the export trade to these markets.

PROSPECTS OF EMPLOYMENT.

24. Against the effects of demobilisation, the cessation of Government orders for war work, and the addition of new workers to the labour market, we can therefore set off three great sources of employment—the necessity for reconstructive work, the revival of private buying, and the revival of foreign trade. So far as we can forecast the net effect of these factors, we may expect a consider-

able amount of unemployment, due not to "shortage of work" or "surplus of labour," but to the general dislocation of industry caused by the war and the difficulties of readjustment.

25. The immediate problem will, indeed, be rather the adjustment than the provision of employment. The returned soldiers and discharged munition workers will have to be absorbed into the trades where the demand is greatest. Emergency workers, employed on Government contracts, will have to be found a place in civil industries. In cases where men now serving have been guaranteed replacement on their return, the stopgap workers will have to seek other occupation. In many cases, the experience of the war has shown that a workshop or office can be run effectively by a smaller staff than hitherto, and men whose places have not been guaranteed may have to go elsewhere. It is probable that many clerical workers and male domestics will have to turn to industrial employment, owing to the competition of female workers and the continued reduction of establishments. The work of reconstruction and the effect of orders held back for the period of the war will create an abnormal demand in special trades. The whole machinery of Industry and of home and foreign trade will have to be readjusted to normal conditions.

II.—EARNINGS.

26. The first step in any enquiry into earnings is the realisation that wealth cannot be distributed before it is produced; and that the national income cannot exceed the aggregate value of goods produced and services rendered within the country, or received from without in payment for goods and services, or as interest on foreign investments. So stated, the proposition will be

recognised as a truism, but a failure to realise its truth lies at the root of a host of economic fallacies, especially on the part of those who concern themselves wholly with distribution and those who prescribe some single specific as the cure for every national evil. The foundation of prosperity is production and many causes will tend to reduce production after the war.

Causes Tending to Lessen Production.

(*a*) Men Killed and Incapacitated.

*27. The number of men formerly engaged in productive work who have been killed, or wholly or partly incapacitated, can only be very roughly estimated. The provisional figures given by the War Office show some 750,000 officers and men who have been killed, or have died from wounds or other causes, or are on the "missing" list, and whose deaths have been officially presumed. In addition there are probably about 50,000 "missing," who should be added to this total. These figures include Dominions and Indian troops; and, of course, a certain proportion of non-workers in the industrial sense. What proportion of the wounded will be permanently disabled it is impossible to say, nor can any estimate be given of those who, although not figuring on the casualty lists, have undergone a nervous strain which will seriously affect them in after life. Taking into account military, naval, and civilian casualties, it is probable that the number of those who were, or would have been employed in productive and distributive industries in the United Kingdom, whose services have been lost or seriously impaired as a direct result of the war will be well over 1,000,000.

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* This paragraph has been re-written.

(*b*) Emigration.

28. Of the men who come back it is at least possible that we shall lose large numbers through emigration. Many will have become discontented with sedentary occupations and will prefer the free and open-air life of the Overseas Dominions. Many will seek better prospects abroad through fear of the hard conditions likely to be found at home. Such has been the common experience of nations after great wars, and in this case the Dominions will themselves have lost a large number of workers and will be the more inclined to encourage immigration.

29. When a man in the prime of life dies or emigrates, it is a real loss to the home country. It is true that he has consumed as well as produced and when he is gone there is a consumer as well as a producer the less. But an adult man normally produces two or three times as much as he personally consumes. He has to produce enough in his working years to provide for the up-bringing of children and for maintenance in old age. Or, looking at it in another way, the rearing, educating and training of a competent producer entails a cost of several hundred pounds to the community, and the expenditure vested in him is lost to that community when he dies, or leaves and settles abroad.

30. Even assuming the number of new workers to equal the total number lost by death, disablement, or emigration, we shall still be faced by a diminution in the ranks of our most efficient producers, for which the new and imperfectly trained labour introduced during the war will form only a partial substitute.

(*c*) Deterioration of National Plant.

31. The national plant will have seriously deteriorated. By "national plant" is meant the whole

machinery of production and distribution with which the industries of the country are carried on—factories, workshops, machines, tools, railways, roads. While certain trades have been obliged to maintain themselves at the highest level of efficiency, others less directly associated with war work have been largely at a standstill. Renewals and improvements have had to stand over till after the war; machinery has deteriorated through enforced idleness and lack of attention. The permanent way and rolling-stock of our railways, the upkeep of our roads, have been perforce neglected. All these factors make for diminished efficiency and reduced production.

31A. In addition to the deterioration of material plant, many trades and industries have suffered severely through the dislocation brought about by war conditions, the suspension of normal activities, and the severance of business connections.

(*d*) Effects of Overwork.

32. In the war industries many employers and employees have been working long hours, in some cases with no week-end break and no holidays. The strain of such continued over-exertion can be borne for a time, but its effects are felt later. Some diminution of productive capacity must be allowed for on this count.

(*e*) Suspension of Industrial Education.

33. Finally, the suspension of industrial education will necessarily bear fruit in lessened efficiency. Our young men have left their colleges and technical schools for the trenches. The laboratories and training shops have been turned into cramming establishments for munition workers. Apprentices and improvers have been withdrawn from the trades which they were learning. Boys and girls who would have been apprenticed to

various trades have gone to blind-alley work in the munition shops. In addition to this interference with directly vocational training, the ordinary schools have suffered from the withdrawal of teachers, the introduction of less qualified assistants, and the interruption of training courses. Unless an effort is made to make up the leeway, there is a danger that children now in the schools will arrive at the age for vocational instruction with their general intelligence and capacity for learning less fully developed than might have been the case.

Causes Tending to Increase Production.

34. Against the above must be set a number of new factors tending to increase the national output. In many ways the war has acted as a stimulus to industry. While the strenuous exertions of those engaged in war industries may be followed by a reaction, it is probable that on the whole the habits acquired during the war may result in raising the general average of application. Many may work harder and more efficiently than they did. To this end the effort to recover, in harder circumstances, the standard of living maintained before the war, or to keep up the standard attained during the war, will materially contribute. Some at least of those who survive the ordeal of the trenches will come back keener, quicker and more physically fit. The number of former non-producers who continue working will probably be large, and in many quarters they have revealed unsuspected adaptability and endurance.

35. Much, though by no means all, of the special plant erected for war purposes can be adapted to peace industries. In some cases, as in the army clothing and, to some extent, the shipbuilding branches, it will be as readily available for manufacturing for the peace

markets as for supplying naval and military requirements. A large number of buildings and machine tools erected during the war can be taken over with little or no alteration. Others can be converted to the uses of ordinary trade in the same way as those existing before the war were adapted to the manufacture of munitions.

36. Under the stress of the war there has arisen a keener appreciation of the need for scientific production. In many trades great strides have been made in the direction of standardisation of parts, better management of the supply of raw material and better organisation of business. A knowledge has been gained of special processes hitherto monopolised by German or Austrian firms. Our manufacturers have become accustomed to the supply of necessary articles on a larger massed scale. In the engineering industries the use of jigs, limit gauges, and automatic or semi-automatic machine tools has been enormously extended, and works that have acquired for the first time an intimate familiarity with these appliances will doubtless continue to use them in connection with their accustomed work after the war.

36A. In many cases the retention of the new machinery will depend upon an agreement being arrived at between the employers and the Trade Unions as to their use. The difficulties in the way of such an agreement and the methods by which they may be overcome are discussed in subsequent paragraphs.

37. But when all these things have been allowed for, it remains certain that the national production must, for many years, be reduced, unless it can be rendered more efficient by better organisation of Industry.

Reduction of Income from Abroad.

*38. The income formerly derived from abroad in the shape of interest on investments has been seriously reduced. For the first time this country has itself been obliged to contract a heavy State debt abroad, chiefly in the United States, the total of which may be estimated at £1,500,000,000. As against this must be reckoned the loans made to India, to the Dominions, and to our Allies, amounting in all to some £1,940,000,000; but of these loans only a portion can be looked on as representing a substantial asset. The Chancellor of the Exchequer has estimated the recoverable loans at £1,124,000,000.† It would, perhaps, be safer to put the figure at £1,000,000,000. The interest on these loans will be Government income, and may be set off against the interest payable on the debts contracted abroad; but it will be seen that the amount of the recoverable loans is only about two-thirds of the foreign debts. Moreover, foreign securities which may be roughly estimated at £350,000,000 have been sold during the war, and in addition, large sums invested in Russia and elsewhere have become a total or partial loss. The income derived from abroad in the shade of payment for shipping, banking, and insurance services, has been very seriously diminished during the war, and it may take some years before it reaches its former level.

Net Effect of the War on Earnings.

39. Taken as a whole, there can be no reasonable doubt that, unless an organised effort towards increased

* This paragraph has been re-written. The figures represent an estimate to March 31, 1919.

† *Hansard*, Vol. 105, No. 33, cols. 696-697.

production is made, the aggregate national income is likely to be much lower than before the war. The decrease will be cloaked by the inflation of money values. It is already evident that even though real income in terms of goods and services is diminished, nominal income in terms of money will be the same or even higher. This may ease matters for a while, but in the long run income is assessed at its intrinsic value; and with the smaller total available for distribution, the likelihood of dispute as to its apportionment will increase.

III.—THE DISTRIBUTION OF EARNINGS.

40. With a general reduction in the national income —the amount of wealth to be distributed—the question of distribution will become acute. It will be complicated and intensified by the introduction of several new factors.

(*a*) High Prices.

*41. The general level of prices will undoubtedly remain high. The release of shipping requisitioned for war purposes, the resumption of civil industry, and the re-opening of sources of supply which have been closed during the war, will no doubt operate in the direction of a fall. In the case of certain classes of goods this fall may be expected to be considerable and fairly rapid. Such are: (*a*) goods the import of which has been prohibited or drastically cut down; (*b*) articles which the military authorities will have to unload; (*c*) goods for which the war has created an abnormal naval and military demand. There will also be a fall in the price of goods which have been widely purchased by persons receiving abnormal profits or wages for emergency work which

* This paragraph has been partly re-written.

will no longer continue. On the other hand, the inflation of the currency due to war borrowing, the increased cost of production due to deterioration of plant and diminished efficiency, and the general industrial and financial dislocation at home and abroad, will all combine to keep up the general level of prices, or even to force it still higher. The probable sequel will be a demand for increase in nominal wages to enable the previous level of real wages—the standard of living—to be maintained. The satisfaction of this demand may quite well lead to a further raising of prices, resulting in much hardship among those employed in trades in which no adequate increase of wages has been secured. The professional classes and clerical workers, whose nominal earnings have not generally speaking been much increased during the war, will continue to be very hard hit. The real value of incomes derived from investments paying a fixed rate of interest will still be appreciably diminished. Apart from currency influences, the lowering of prices will depend upon increased industrial output, and upon the extent to which the consumption of luxuries, with its consequent employment of workers on the creation of useless commodities, is foregone, enabling labour to be diverted into industries producing the necessaries of life. Increased taxation will contribute to this end, but will not relieve wealthier people of the obligation to accept without demur a diminished proportion of the national income, if this should prove to be necessary in order to save the poorer sections of the community from severe hardship. Ill-considered fiscal changes might, on the other hand, drive prices still higher or retard their fall.

41A. To form an opinion as to whether prices will fall relatively to wages after the war it is necessary to consider why prices rose during the war. There is

no subject upon which experts differ so widely. None the less the following explanation may be advanced with confidence. Prices rose because purchasing power expanded relatively to the output of goods and services; and that in turn was due to the financing of the war by borrowing. People who had lent money to the State regarded their war stock as savings or capital, and either spent the balance of their income more freely or used their war bonds as working capital. In the former case they did not save out of their remaining income what they would have done had their contribution to the war been a tax instead of a loan; in the latter case the money was spent twice over—once by the Government and again by the business or its bank. Meanwhile, there was no increase in the output of goods or services. There were thus more bidders for the same, or a smaller volume of supplies, and consequently prices rose. Other factors contributed to the rise—the suspension of the gold standard, the over-issue of paper money, the encouragement of buying war loan with money borrowed from the banks—but these all told were but minor influences. Neither extravagant wage demands nor "profiteering" were causes, nor even influences; they were accompaniments.*

41B. Prices will fall just according as the production of goods and services overhauls purchasing power throughout the world. If the Governments go on borrowing from their nationals, prices will go on rising. The cessation of borrowing will not in itself cause prices to fall. That will come about only as a result of paying off the national debts out of the proceeds of steeply

* It should be noted here that the practice of paying for the war by loan was universal among the belligerents, and no one State could have kept prices down within its own borders while the world level of prices was rising.

graduated taxation, increasing the output of the means of life per unit of remuneration, and all-round economy. As prices fall, wages, profits, and interest will work their way down the scale, but any attempt to depress forcibly any one of these items in advance of the fall in prices will work injury to industry as a whole.

(*b*) High War Wages.

42. The urgent demand for munitions and material of war, together with shortage of labour, has led to high rates of wages being paid for war work. The amount of such increases has been greatly exaggerated in the popular mind by confusing weekly earnings with rates per hour. The large sums frequently mentioned as being taken home by particular workmen at the end of the week were in almost all cases earned by unsparing labour on piece tasks, or by working long hours overtime. Family earnings have also in many cases been increased as a result of more members of the family going out to work. The standard of comparison in any consideration of wage movements is the rate per hour, and whilst wage rates in the munition industries have substantially increased, the average advance in all industries has been more than counterbalanced by the rise in prices. It follows, therefore, that any serious reduction in rates after the war will leave the generality of workers in a far worse position than before the war. It is to be remembered also that there are a great many employments in which wages have increased comparatively little during the war. Wage-earners in these cases are already suffering from the increase of prices and will continue so to suffer long after peace is declared, unless some very definite steps are taken to improve their lot.

42A. The effect upon the standard of working class life of the rise in the cost of living during the war has been investigated by a Committee, whose report was presented in October, 1918.* This report is too lengthy and complex to be analysed here; but the general conclusion of the Committee is that when the rise in prices is weighed against the various counter-balancing factors, the working classes as a whole were able to maintain substantially the same standard of life in June, 1918, as in June, 1914, and that in the case of unskilled workers the standard was even a little higher. The counter-balancing factors, which were mainly due to the abnormal condition of the Labour Market created by mobilisation and war demands, will now disappear, while the general level of prices, as we have seen, will remain high.

42B. Until prices fall there can be no question of lowering standard rates of wages, but the takings of labour can go down altogether apart from a reduction in standard rates. Thousands of war workers, especially women, will lose well-paid jobs and have to take up other employment where the wages will be much lower. Again, even in the case of workers who stay in the same industry, many piece-work jobs on which good money was earned will disappear, and they will have to settle down to time-rates, or to new piece-work tasks the price for which has not been so generously computed. In the same way a good deal of overtime, for which an extra rate per hour is paid, will cease. All these changes will spell a reduction in earnings without any reduction in the rate of wages. Finally, there will be the question of war bonuses granted with the object of enabling the wage-earner to meet the

* Report of Working Classes Cost of Living Committee, 1918. Cd. 8980. Price 3d. net.

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increased cost of living; it is to be presumed that the withdrawal of these will be regarded as contingent not on the cessation of the war but on the fall in prices.

43. The attitude of unskilled and unorganised labour after the war will be influenced by the fact that in military service many of them will have made acquaintance with a hitherto unknown standard of maintenance. They have been better fed and better clothed than ever before. Their dependents, too, have been receiving State allowances, often increased by their own earnings. These people will not readily go back to the old conditions of employment and life. For these reasons among others, large sections of lower-paid wage-earners will resent and resist any attempt to make good a reduction in the national income at the expense of themselves and their families.

(*c*) War Loans and Taxation.

*44. An enormously increased national debt is one of the inevitable legacies of the war. The estimated total amount of that debt as on 31st March, 1919, is roughly £8,000,000,000, of which about £1,500,000,000 is represented by foreign and £6,500,000,000 by internal borrowing. If it should be necessary to continue borrowing for another year in order to cover the cost of demobilisation and transition, the total of 31st March, 1920, may very well be £9,000,000,000, of which £7,500,000,000 will be internal, and £1,500,000,000 external debt. The payment of interest on this debt and the provision of a sinking fund for its redemption will involve an annual charge amounting to some £450,000,000 in 1919-20, and perhaps £505,000,000 in 1920-21 and onwards.† Against this must be set any

* This paragraph has been re-written.

† Taking 5½ per cent. on the internal and 6 per cent. on the external debt.

interest received from the Dominions and Allies on loans made during the war.

44A. The annual expenditure of the State before the war amounted to £173,000,000, excluding service of debt. To this must be added in the years ahead at least £50,000,000 for pensions and £47,000,000 for increased expenditure on education and other objects; so that the total expenditure after the war, including debt charges, will not be less than £720,000,000, and may be considerably more in a year's time. As against this expenditure we can put Excess Profits Tax, amounting to some £300,000,000, and other taxation, most of which will continue after the war, amounting to £540,000,000. The Excess Profits Tax, which is based on an arbitrary standard of normal profits and on the peculiar circumstances of war trade, cannot very well be continued in its present form, and its loss will have to be made good by an increase in other forms of taxation.

44B. The effect of the increased debt charge on inequalities of distribution will depend mainly upon the form of taxation adopted. It has been estimated that, on the whole, the distribution of the total annual product between the wage-earning class on the one hand and all other classes on the other has not been appreciably affected during the war.* On the other hand, the proportion of the national capital held by a comparatively small class has increased. The total amount of the War Debt representing the savings of small investors has been variously estimated at from £250,000,000 to £500,000,000. Even assuming the higher figure, it is probably true to say that 12 per cent. of the population who formerly owned 88 per cent. of the total private wealth of the country now own a still

* See *New Statesman*, November 2, 1918.

larger proportion. If, after the war, wages go down, the inequality in distribution will be accentuated with regard to income as well as with regard to capital, and if an undue share of the burden of the debt charge should be placed upon the non-investing classes, the balance of distribution will be seriously disturbed, and it is even possible that a cry for repudiation might arise. The effect of repudiation, however, would be disastrous. It would render it impossible for the State to borrow money, either at home or abroad, for any purpose, except on most unfavourable terms ; it would wreck public confidence and business credit, and it would constitute an unjust discrimination between those who had lent their money to the State and those who had invested it in other ways. A carefully graduated capital levy on all forms of private wealth, for the purpose of paying off part of the debt would be free from these objections and might prove less onerous even to the investing classes than a long continuance of war taxation, while it would have important results in deflating money and lowering prices.* Apart from the question of a capital levy, the only way by which undue hardship can be avoided, is by arranging the incidence of taxation in such a way that the revenue shall be drawn mainly from the creditor classes.

(*d*) Dearness of Capital.

45. With the prospective diminution in the volume and flow of wealth, capital available for investment will be scarce and dear, and credit facilities are likely to be limited. The argument has been put forward

* The question of the practicability of a Capital Levy, or of the method to be adopted, is too complex and technical to be argued in these pages.

that the new national debt makes ideal banker's collateral, and so constitutes a basis for a great extension of credit; but this appears to overlook the fact that the volume of credit, though conditioned by enterprise and confidence, is otherwise dependent upon the continuous output of actual wealth. While a particular kind of paper may be more acceptable as a basis of credit than another, an increase in the amount of that paper will not swell the volume of credit as a whole. There is also some expectation that the Government will be able to repeat and perhaps to extend the operations of August, 1914, in the way of credit creation or subsidy; but here again it is apt to be overlooked that such emergency measures cannot by their very nature be made a permanent and continuous feature of the financial system. New capital may therefore be expected to command a high return after the war, and to absorb a correspondingly large share of the national income in proportion to the amount of capital provided.

45A. The holders of Consols and of other gilt-edged securities, and of debentures and other fixed-interest stocks have, on the other hand, lost half the value of their capital during the war, for the interest they receive on it will buy only one-half the former amount of goods and services at the prices and wages now current. The real return on all fixed-interest investments, including war loan, has been steadily declining throughout the war. Capital of this kind is consequently taking far less than its former share of the national dividend. Conversely, if prices fall, the real return on all these securities will increase, and the cost in meal, malt, and gear, of redeeming them will be correspondingly increased. But *new* capital, as is stated above, will be dear.

PROSPECTS WITH REGARD TO THE DISTRIBUTION OF EARNINGS.

46. Of the four above-mentioned factors tending to influence distribution, two, high prices and dear capital, will react unfavourably to Labour and are hardly susceptible of concerted or legislative modification. High prices may make for higher profits, and thus enable higher wages to be paid; but unless the national finances are handled with great discretion, heavy taxation will operate against both the making of profits and the enjoyment of wages received. The loading of the scales would in any case appear to be against Industry, and perhaps more particularly against Labour; and unless every effort is made to expand the national output, it is difficult to see how conflicts as to distribution can be avoided.

IV.—CAPITAL AND CREDIT.

*47. It has already been shown that the fixed Capital of the country, its plant and communications, will have deteriorated to a serious extent, and that new Capital will be scarce and dear owing to the restriction of production and war losses. Much of the temporary support to credit which was provided by Government emergency measures at the beginning of the war has been gradually removed. The moratorium has long expired, the liabilities arising from bills of exchange have been slowly liquidated, the maximum prices of securities have been abolished. Some of these measures remain. In particular the withdrawal of the legislation affecting rents and mortgages may have serious results to certain classes. But it is not to be anticipated that the complete removal of the

* This paragraph has been re-written.

remaining emergency legislation will produce anything in the nature of a financial crisis or a partial collapse of credit. What may be expected is that when the embargo on investment abroad is raised, large streams of capital, sorely needed for development work at home, may be diverted to foreign countries. The probability of this will be increased if there is unduly heavy taxation of income or profits.

V.—SPIRIT AND TEMPER.

48. The problems presented by the industrial situation would be difficult enough if they were faced in the best spirit and with the coolest wisdom. Unfortunately, as has already been suggested, there is a strong likelihood of their being complicated by the existence on all sides of a temper which will not only render it difficult to arrange an acceptable settlement of the issues at stake, but impede the reconstruction of industrial and national life.

49. In so far as this temper is directly connected with the war it may be summarised under three heads :— Economic Discontent ; Class-Suspicion ; Psychological Reactions.

(*a*) Economic Discontent.

50. We have seen that several causes will combine to reduce the earnings of Labour after the war. Even should standard rates remain at a high level or be increased, real wages will be low owing to the increase in prices and the disappearance of the better-paid jobs. At the same time there will be a certain amount of unemployment due to the difficulties of readjustment.

51. These are phenomena particularly likely to cause discontent. The man who sees that while he is receiving more money his spending power is actually decreased,

the man who finds a difficulty in obtaining work although he knows that there is no general lack of demand for labour, are both apt to imagine themselves cheated and to break out into fierce resentment against those better off than themselves. To say that this resentment is in large part the result of defective reasoning will not get rid of the trouble. It is not easy for men to reason on economic causes when the result is felt not merely in need for retrenchment but in want of necessaries.

52. The sense of hardship will be aggravated by the cessation of separation allowances. There is no doubt that in many cases, such as the families of agricultural labourers and unorganised workers, the separation allowances have represented a substantial increase in spending power, while the wage-earner has been better fed and cared for in the Army than ever before. They will not go back without protest to the old, often wretched, conditions of their life before the war.

53. Unless some means can be found of counteracting the tendencies above discussed, the lot of the wage-earner is likely to be a hard one. At the same time, the demand for reasonable remuneration and decent conditions will be stronger than ever. The national exertions during the war have profoundly affected the minds of the working class, and have impressed them with perhaps an exaggerated notion of the power of the State and the extent of the national resources. It will no longer be possible to silence the demand for social reforms by the assertion that they cannot be afforded. Such a contention will be met by the argument that a nation which has been able in an emergency to find several millions a day for war purposes cannot plead poverty as an excuse for neglecting the improvement of social or industrial conditions.

54. While there is a danger that the real earnings of Labour will be reduced, the real profits of Capital and Management may suffer a similar diminution due to restricted output, increased cost of production, and heavy taxation, whereupon the three great partners in Industry will be threatened simultaneously and the competition between them for its proceeds will be intensified and embittered.

(*b*) Class-Suspicion.

55. The necessities of the war, especially with regard to the production of munitions, have resulted in the temporary abandonment of many of the Trades Union "safeguards." The two most important instances are the removal of restrictions on output and hours of work and the dilution of skilled Union Labour by partly skilled or unskilled, non-Union Labour. Pledges have been given for the restoration of the *status quo*. The new developments of industry, the springing up of a great army of new workers, and the difficulties of readjustment, will make it very much more difficult than was expected to fulfil these pledges literally. Unless some new equivalent can be found which will convince the members of the Unions themselves that they have gained more than they have lost, there will very naturally be a strong feeling of resentment. There is already only too prevalent a belief that advan age is being taken of the war to prejudice the position of Labour. Any hitch arising in the restoration of Trade Union "safeguards" must powerfully reinforce this belief. The allegations made by both Employers and Employed that the necessities of the war have been turned to account for the promotion of class or personal interests, the fear that returned soldiers may be used as "blackleg" labour, the fear of the permanent intro-

duction of compulsory military service as a means of strike-breaking and neutralising the power of Organised Labour, the recollection of war-time strikes, will all tend to increase the bitterness of class-suspicion.

55A. A hitch in the restoration of the Trade Union safeguards has already arisen. The delay in passing an Act giving effect to the pledges of the War Governments is at the moment of writing creating a situation of the utmost gravity.

(*c*) Psychological Reactions.

56. We have further to face the fact that the discontent due to economic conditions will be aggravated by certain features in the general temper and spirit of the nation.

57. An effort so stupendous as that made during the war is almost invariably followed by a reaction. It is a great thing that the response to the national call should have been as ready as it has, that the Trade Unions should have yielded up their most prized safeguards, that men should have laboured in the munition shops until they dropped at their work, that the Income Tax payer should have submitted without murmuring to an unprecedented increase, that so much thought and effort as well as money should have been poured by the leisured classes into national channels. But all history teaches us that unless this energy and self-sacrifice receives a fresh impetus not less potent than that of the war, the removal of the stimulus will be followed by a dangerous slump.

58. We have to take into account that those who are crushed or hampered by the burdens arising from a war are apt, when they take stock of their position, to lay the blame on those responsible for the Government of

the nation during the war, even though they themselves cordially supported the country's participation in it.

59. It must be remembered that, however these burdens may be distributed, " Equality of Sacrifice " is in point of actual fact impossible. The percentage of income reduction which means to one man the giving up of luxuries and curtailing of travel, means to another shortage in the necessaries of life. The obligation to serve implies in some cases temporary embarrassment and a reduced income ; in other cases it implies selling up the home and business ruin. To the sorrow of those whose relatives have been killed or injured, there is added in many cases the hardship caused by loss of the bread-winner. Great numbers both of the working class and of the lower middle class will be hit by the war in a way that those in different circumstances can only appreciate with difficulty. Inevitable as this may be, and unreasonable as it may seem that inevitable suffering should result in social or political discontent, it is no use shutting our eyes to the probability of its doing so.

60. There is no doubt that the working of the Munitions Acts and the Military Service Acts, the methods adopted in certain quarters to promote recruiting, the suspension of Trade Union regulations, the enormous profits made in certain trades, the rise in food prices, have sown the seeds of a great deal of bitterness. Much of it may be unreasonable, much of it based upon demonstrably false assumptions and fanned by unscrupulous controversialists on both sides ; but again we are dealing with facts which must be faced.

61. There is thus no lack of inflammable material ready to the hands of the incendiary. The incendiary is not far to seek and may be found in all classes. It is easy to persuade bitterly discontented men that if society is thrown into the melting pot their condition

cannot be rendered worse and may be rendered better. It may be argued that force is no remedy for economic evils and that its application to social questions gives very uncertain results. But such arguments require a clearer atmosphere than that of class-hatred and suspicion, and unless a practical and attractive alternative can be offered, there is a grave danger that the extremists may persuade a large following to try the chance of industrial warfare. The danger of an appeal to force in some form is all the greater that the war has habituated men to the idea of conflict as the means of settling disputes.

62. On the other hand we have a reactionary section among Employers, who, like the Labour extremists, believe in the inevitability of class-warfare. There is a real danger that this section may adopt to some extent the German view of Labour as a force which needs to be controlled and disciplined from above, and may regard the war as an opportunity to accomplish this end. There is reason to fear that some Employers look on the Military Service Acts, the State control of war industries, and the temporary abandonment of Trade Union restrictions, as an opportunity to establish once for all the ascendency of Capital over Labour. It is not desired to question in these pages the necessity of any measure adopted during the course of the war. The gravity of the position consists in this half-acknowledged intention to use the new conditions which have arisen for the coercion of one of the parties whose co-operation has made the carrying on of the war possible.

PROSPECTS AS TO SPIRIT AND TEMPER.

63. The combination of economic discontent, class-suspicion, the doctrines of Social Revolutionaries and

the tendency to Industrial Prussianism, threatens us with a bitter conflict between Capital and Labour which would render it impossible to deal successfully with the problems of readjustment and reconstruction. Only by uniting the efforts of all classes towards common ends, on the lines of a broad national policy, can such a catastrophe be averted.

C.—The Problem and Some Remedies.

I.—THE PROBLEM.

64. The Problem before us has been sufficiently indicated by the foregoing analysis of the dangers with which we are threatened and the difficulties which lie in our way. It is only necessary to summarise it very briefly.

(i) The Emergency Problem.

65. The Emergency Problem is simply to avert an outbreak of industrial anarchy in the immediate future.

66. The urgency of the task can only be measured by the magnitude of the danger. That the possibility, even the probability of such a development is a very real one, there is every reason to believe. Whatever the upshot of such an outbreak, its effects would be almost equally disastrous to all classes of the community.

67. To Capital it would mean a long period of suspended activity, depreciation and possibly wreckage of plant, heavy financial loss, a fatal handicap in competition with foreign manufacturers. "Victory" would be dearly won at the price of leaving Labour discontented, inefficient, mutinous, ready to renew the fight at the first opportunity. While the questions at issue might be shelved as the result of a Labour defeat, they would not be solved, and the increased class hostility generated by the conflict would remain an insuperable bar to the development either of industrial efficiency or financial confidence.

68. To Labour, industrial warfare involves a long period of hardship and privation. Any material advantages gained would be largely discounted by the sufferings to be endured, the depletion of Trades Union Funds, and the crippling of the sources of production from which

alone the wealth of any class can be derived. Against the prospect of improved working conditions and fuller recognition of the rights of Labour, must be set the risk of internal dissensions arising during a prolonged struggle, and the possible loss of all that has been won in past years.

69. A clear cut victory for either side is improbable. In an industrial conflict on the scale anticipated it is unlikely that the anticipations of either Employers or Employed would be fulfilled. The passions let loose and excited by the losses of Capital, the sufferings of Labour, and the hardships arising to the whole community from high prices, scarcity of commodities, dislocation of the ordinary activities of life, and destruction of confidence, might easily create a drift towards general chaos which would defy the control of either Capitalist or Working-class organisations. It is not improbable that an intolerable situation would be ended by hasty and ill-considered State action, placing Industry as a whole under the yoke of a bureaucratic tyranny—a sort of industrial Napoleonism.

70. Whatever the event of the dispute, the prize of victory would perish in the struggle.

(ii) **The Constructive Problem.**

71. The Constructive Problem is concerned with the more lasting effects of the war and with those difficulties, social as well as economic, of our industrial life, which it has accentuated though it has not created. On the one hand we have to readjust and reorganise our industries to meet the new conditions, to provide for replenishing the national capital and maintaining or increasing the national income. On the other hand, we have to remove the evils which have rendered the industrial problem an

irritant in our social life, to preserve and strengthen the safeguards of individual liberty and self-respect and to reconcile the conflicting claims of efficient production and fullness of life for the Workers. To do this with success we must face boldly the whole question of industrial policy. We must endeavour to devise some means by which the wasteful friction between Employers and Employed may be replaced by co-operation to secure these national ends and the whole resources of the country directed to promoting the material prosperity and social well-being of all classes of the population.

72. If we can accomplish this we shall not merely have dealt successfully with the situation created by the war. We shall have removed the most serious obstacle to industrial and social development. That the nation should recuperate quickly, that the national plant should be restored, that capital should be plentiful, that labour should be efficient—these things are necessary in order that we may avert a threatened danger. To secure industrial peace on terms just and honourable to both sides would be to double the national strength whether in industry or in citizenship.

72A. It should be clearly understood that industrial peace is not an end in itself. We desire industrial peace not for the negative purpose of avoiding troublesome disputes but for the positive purpose of laying the foundations of constructive co-operation between all classes in Industry, with the object of enabling Industry itself to play a worthier part in the national life.

73. It is obvious that much will be gained if we can frame the measures adopted for meeting the Emergency Problem in such a way as will lay the foundations of permanent reconstruction. By so doing we shall wring a definite good out of the evils with which we are faced, and we shall have a double claim on all classes for

co-operation and if necessary for concessions—that they may thereby both save themselves from threatened ruin and look forward to a positive gain.

74. In order to deal effectively with either the Emergency or the Constructive Problem, it is essential to keep in mind that both are dual in their nature.

75. On the one hand are the direct economic effects of the war, the difficulties of demobilisation and readjustment, and the diminution of the national income by deterioration of plant, loss of workers and wastage of capital. These effects can be dealt with by special measures framed with a view to meeting specific dangers. Some of these measures will be of an emergency character, having for their object to carry us through the period of transition with a minimum of suffering and friction. Others will be of a more constructive kind, intended to increase our general industrial efficiency and so to neutralise the more lasting results of the war in the direction of diminished production and reduced earnings.

76. On the other hand, there is the fundamental problem of Industrial Unrest, which may be aggravated and brought to a head by the effects of the war, but has its roots deep down in industrial history. It can be solved only by a much broader and more far-reaching treatment, based upon a survey not of the accidental circumstances of the moment, but of the permanent features of our industrial life. Unless this problem is successfully solved, no other steps which may be taken can be relied upon either to avert the immediate crisis or to ensure the future prosperity of Industry.

77. Many of the detailed questions bearing upon the work of readjustment and reconstruction are already the subject of investigation by Government Departments, by well-equipped societies, or by groups of

men having expert knowledge and practical experience. It is well that this work should be done by those who have special equipment for dealing with its various phases. But two things require to be kept constantly in mind. First: No single detailed measure however important in itself and however thoroughly it is worked out, will form a substitute for clear thinking with regard to the essential principles of industrial life and a united effort by those concerned to give them fuller expression in their joint activities. Secondly, it is essential to avoid clashing or overlapping by the various movements represented and to give the work of each its proper place and perspective in the wider scheme.

77A. Above all, it is essential that the industrial problem should be considered as an integral part of the larger problem of national life, and that the intimate connection of social and economic factors should be kept constantly in mind.

78. For the above reasons we propose to do little more than indicate a number of the more important matters which require study with a view to neutralising the direct effects of the war, reserving for more extended treatment the fundamental problem which is both the most important and the least recognised.

II.—EMERGENCY MEASURES.

(i) Demobilisation.

(*a*) The Finding of Jobs.

*79. It has been shown that the most probable cause of unemployment after the war will be, not the lack of

* This paragraph has been re-written. The principal points in the original paragraph were (*a*) the necessity for demobilising by priority rather than by military units; (*b*) the need for a register of previous occupations and capacities; (*c*) the necessity of supplementing the Employment Exchanges by local or trade committees of Employers and Employed.

a demand for labour, but the difficulty of bringing together the workman and the job. The manner in which it is proposed to deal with this difficulty in the case of demobilised men has already been published.* The most important feature of the scheme is that the idea of demobilising by military units has been abandoned. The order of priority is to be : (*a*) men required for the work of demobilisation itself and pivotal men in industry ; (*b*) men who have jobs definitely promised them on their return to civil life ; (*c*) men for whose trades the demand is likely to be brisk ; (*d*) other men in the order of importance of their civil employment. In each group a preference will be given to married men and men with long service at the front. For the purpose of carrying out this scheme, a register of the men's previous occupations and capacities is being rapidly completed, and the actual finding of jobs is to be done through the Employment Exchanges of the Ministry of Labour, with the assistance of the Trade Unions and of Local Advisory Committees, mainly composed of employers and workpeople in equal numbers. Where necessary, Trade Sub-Committees will be formed, composed of representatives of employers and workpeople, to deal with specialised industries. Provision is also made for a free unemployment policy payable for not more than 20 weeks in the first year after discharge. The scheme as a whole appears to be conceived on sound lines, and if well carried out should go far to avoid unemployment and to accelerate the return to normal industrial conditions. Its success will depend mainly upon the extent to which the co-operation of employers and Labour organisations is obtained. While due care

* A very clear account of it is given in *The Demobilisation of the Army* (*Reconstruction Problems* 3) issued by the Ministry of Reconstruction, 2d. net.

appears to have been taken to provide against throwing men upon the Labour Market without prospects of employment, it is very important that the process of demobilisation should be as rapid as possible, both for the sake of the men themselves and in order that civil industries may be re-established.

80. Even with the most complete machinery that can be devised, it is difficult to see how a certain amount of temporary unemployment can be avoided if we are content to rely entirely upon the ordinary course of relations between demand and supply. This margin of unemployment could, however, be largely reduced if not extinguished, by State and Municipal expenditure upon works of public utility. Such a policy will need to be carried out with care and closely watched from the standpoint both of public economy and industrial conditions. Employment of this nature can never form a permanent substitute for that arising from industrial activity and it would be worse than folly to keep men engaged upon stand-by Government or Municipal work when the industries of the country were ready to receive them. All such work should therefore be undertaken in close co-operation with the Employment Exchanges and the local Committees representing Employers and Employed. It should also be confined to work of definite utility and as far as possible to undertakings of a productive nature or connected with the restoration of the national plant. At the same time it would be legitimate to anticipate to some extent work intended to be done in the near future, in order to give employment at the moment when it is most required. There is a large amount of really valuable work to be done in connection with housing, the repair and improvement of roads, afforestation, the reclamation of waste land, etc., which would prove a sound investment both from the

social and economic point of view, and which the training of the returned soldiers in trench warfare would have fitted them to accomplish efficiently.

(*b*) The Assuring of Decent Wages.

81. We shall undoubtedly have to meet a demand that men returning to civil life shall be placed in a position no worse than that which they occupied before the war. Since the cost of living has risen and will remain high, this will involve proportionately increased wages. In the case of men who have been guaranteed re-implacement, the pledge will naturally be read in this sense. Men who do not return to a specific job but who work at a staple trade will, of course, look for the standard rate of wages current at the date of their return. Any attempt to use ex-service men as a means of substituting the old rates of wages for those which have been granted to meet the increased cost of living, would not be tolerated for a moment.

82. In the case of those trades in which organisation is but feeble and in which standard rates of pay can hardly be said to exist, it is probable that improvement could be secured by the application to them of the Trade Boards Act. Experience has shown that the fixing of minimum rates under this Act has had a beneficial effect on the wages paid, and that the increases so secured have raised the workers affected just above that margin where they become capable of organising and securing fair conditions of employment for themselves. The fixing of minimum rates in certain trades has also had a stimulating effect upon workshop management in those numerous cases where the methods and organisation were such as to leave room for an improvement out of which the increased labour charge could be recouped. Direct legislative action of this character could be taken

in addition to no less important measures for the training of those who are employed in, or might otherwise enter, low paid occupations—measures which are not only of direct value to those immediately affected, but also of indirect value in mitigating the rigour of competition among the remainder. A Minimum Wage law is a powerful instrument for achieving improvement and should not be neglected, but it is well to recognise that its indiscriminate application might be attended by certain risks. There is in many trades a margin of unexhausted possibilities which a wisely fixed minimum wage would do much to utilise.

*83. Since the first edition of this Memorandum appeared, a long step in the regulation of wages in unorganised trades has been taken by the Trade Boards Act of 1918. Under this Act, which is an amendment of the Trade Boards Act of 1909, the scope of Trade Boards is extended from those trades in which " the rate of wages prevailing in any branch of the trade is exceptionally low " to all trades in which " no adequate machinery exists for the effective regulation of wages throughout the trade." The test is thus no longer simply low wages but immature organisation. It is provided that a Trade Board *must* fix a minimum rate, or minimum rates, for time work, and *may* fix minimum rates for piece work. Any minimum rate may apply universally to the whole trade, or to a special process, or to a special area, or to a special class of workers, or to any class of workers in any special process or any area. It will be seen that the Trade Boards are not merely concerned with the worst-paid workers, but may fix minima for all grades, including the skilled or better

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* This is a new paragraph. The original paragraph 83 has been deleted as the matter contained therein appears elsewhere.

paid workers. The elasticity afforded to their decisions will enable them to fix different rates for urban and rural districts or gradually to raise the wages in a badly paid district to the level of those prevailing in better paid areas. It is provided, however, that in normal circumstances a Trade Board shall not vary a minimum rate until it has been in operation for at least six months. It will thus be possible for contracting employers to tender in advance without having to fear unduly frequent or unexpected changes in the minimum rates. Further, in the case of infirmity or physical injury, the Trade Board may grant a permit exempting the worker from the provisions of the Act. This provision may have a special bearing on the case of disabled soldiers who might have a difficulty in obtaining employment if they were compelled to demand the full statutory rate while unable to perform a full normal day's work. There are also other provisions relating to the composition and working of the Boards, a brief description of which will be found in Section "E."

(*c*) Settling Men on the Land.

84. The settlement of returned soldiers on the land is desirable from many points of view. It might retain in this country men unwilling to return to sedentary occupations, who would otherwise emigrate; and, if successful, would tend to render the country more self-supporting and to improve the national physique. It would, therefore, conduce both to the efficiency of national defence and to social welfare. The respective advantages of State, local, and co-operative settlements, the desirability of ownership or tenancy of small holdings —all these matters have long been the subject of discussion. It is doubtful, however, whether sufficient consideration has been given to the question whether

the end desired can best be attained by organised settlement of individuals or groups on created holdings, or by so promoting the prosperity of agriculture generally and its status as an occupation, that men will be drawn to it by economic and social attractions. Probably both means may usefully be employed, and attention should not be concentrated on one to the exclusion of the other. The problem of agricultural credit, whether on a co-operative basis or otherwise, is an important phase of the general question of land settlement, which must not be overlooked.

84A. The whole question of land settlement in regard to demobilised men is one that calls urgently for consideration if any action is to be taken before demobilisation is actually completed. The Report of the Departmental Committee of the Board of Agriculture which sat in 1916 did not carry matters very far, and although the Small Holdings Act has been extended in order to enable more land to be obtained, the number of discharged soldiers at present actually settled on the land is infinitesimal.

84B. The general question of access to land, whether for building or for cultivation, is discussed in paragraphs 129—130C below.

(*d*) Teaching Men Trades.

85. In the reinstatement of demobilised men and the adjustment of labour to the new conditions, large numbers of skilled workers may find themselves compelled to seek employment in trades for which they have not been trained. To allow these men to sink into the ranks of unskilled labour would be manifestly unfair to them and harmful to the community. It is necessary, therefore, to make preparations for teaching men those trades in which there is the best prospect of

employment. Of less economic importance, but a debt of honour which the nation must not forget to pay, is the obligation to teach men who are prevented by partial disablement from following their old occupations, some trade within their present capacity.

85A. Various institutions, official and non-official, for the training of disabled men are already doing useful work. With regard to the larger question, the War Office has already introduced a very comprehensive scheme of both general education and vocational training, which it is hoped to extend rapidly during the period of demobilisation. A special object of this scheme is to secure that men who are unlikely to find employment in their old trades shall have the opportunity, before receiving their discharge, to learn a new job. A special scheme for overcoming the difficulties of interrupted apprenticeship has been worked out in consultation with the Employers' Associations and Trade Unions.

(*e*) The New Workshops.

86. Although the plant normally employed in many industries has been allowed to fall, to some extent, into disrepair, a great deal of new plant has been created for the purpose of making munitions. Much of this, though unfortunately by no means all, is convertible for the purposes of civil industry. Part of this plant is in the hands of private owners who will, in the ordinary course of business, make the utmost possible use of it for industrial purposes. Much of it, however, is in the new factories and workshops owned by the State. Of these some may be permanently retained by the Government for the manufacture of war material. With regard to the rest, it will be a question how far they should remain under State control and how far they should be sold to

private firms. The former course would not necessarily involve the entry of the State into competitive industry. The new workshops could be used for the manufacture of plant and appliances used in the work of Government Departments, such as telephone, telegraph, and Post Office equipment. Since this course would involve the maintenance of a permanent staff, it would not perform the function of steadying general employment or providing temporary relief during the period of transition. But it might enable the Government to offer immediate and permanent employment at standard wages to some demobilised men who had lost their old jobs and were prepared to undergo training for new tasks. It is at least possible, however, that sale to private enterprise would result in more efficient use being made of the plant. The knowledge acquired departmentally as to the adequacy of existing plant in the various industries to meet probable requirements may be used as a guide in considering the question of transfer. In many cases it is probable that the cost of conversion would be such as to make economical working impossible, and it will be necessary to be careful lest reluctance to scrap State-owned property should result in ill-advised and wasteful attempts to use it for the fulfilment of Government orders.

87. It will now be possible gradually to reduce the production of munitions and military material to a peace level. There will, however, be an immense *vis inertiae* to be overcome, tending to keep a high proportion of our productive power engaged for months after the war on munition work. It is not easy suddenly to stop or divert the activities of so powerful and so highly organised a machinery as that controlled by the Ministry of Munitions. Many firms will be interested in the continuance of profitable contracts. Many people will

be interested in the retention of secure and well-paid employment. There will be a natural tendency to continue automatically the expenditure of unexpended votes. Varying estimates will, no doubt, be formed as to the proper standard of peace requirements. At the same time, it is essential that, without prejudicing the requirements of national defence, we should act promptly and vigorously in switching off munition work, scrapping what is half-done and re-adapting our industrial plant to the uses of peace. In all the metal industries there will be an abundance of orders waiting for execution, and it depends upon the rapidity with which we effect this transference of effort whether we get these orders before they have gone elsewhere.

87A. The Ministry of Munitions has already made arrangements for the gradual reduction of work on purely military production by abolition of overtime, suspension of payment by results, and reduction of hours worked on a time-work basis. They have also appointed a Demobilisation Board to deal, among other matters, with the liquidation of contracts and disposal and sale of stores and factories. The proposals of this Board will be awaited with interest, as the rapidity of the return to peace conditions will depend, to a great extent, upon the action taken by the Ministry.

(ii) The Exodus from the War Industries.

88. The problem of providing peace employment for those who have acted during the war as stop-gap and emergency workers will be of less magnitude than that of reinstating the returned soldiers ; but it will none the less be a formidable one. We have seen (paragraph 19) that the total number affected will probably be something like a million and a half in the Munition Trades alone. This total may be divided into several classes,

both as regards the nature of their employment and the problem which they will present on a return to peace conditions.

89. The necessities of the war have resulted in the employment of a large number of additional workers in the munition, equipment, chemical, and other industries, either for the purpose of making material of war or to supply the exceptional demand for labour created in certain trades by the circumstances of wartime, such as the cutting off of imports from abroad. The great majority of these have left other employments, either because trade was slack in their own line, or because of the higher remuneration or greater attractiveness of war work. Most of those who have done so may be expected to gravitate back to their former occupations ; but not all will find it possible to gain immediate reinstatement. A large section consists of married women, more particularly of women whose husbands had joined the Colours, who have returned to industry during the war. The majority of these will doubtless return to domestic life ; but many of them may be compelled to continue as wage earners, or may desire to do so. A further section consists of girls who would in the normal course have entered industry during the period of the war, and whose circumstances will certainly require them to seek other paid occupations when their war employment has come to an end.

90. In addition to those who have been added to the number employed on special industries, many women have gone into factories, shops, and offices to take the place of enlisted men. A large proportion of these are young women who would not, in the ordinary course, have sought for paid employment. Here again, it is probable that a certain number will withdraw from industry when the national emergency is passed, but

that a large number will remain as wage earners, either from necessity or from preference. There are also a considerable number of former domestic servants, some of whom will desire to retain the greater freedom and higher remuneration of their new occupations. Such women, whether they have taken the place of enlisted men or have been employed on munition work, will present a difficult problem; for they have had no previous industrial training and the instruction which they have received in the performance of specialised tasks will not be of much service in securing employment when war work comes to an end, or the men whom they have released return. It is probable that a more scientific organisation of office-staffs may find a permanent place for some of those who have entered on commercial life; but the greater number of these new workers will have to look for industrial employment, and unless a satisfactory method of dealing with the difficulty can be found, there is grave danger of their drifting into the lowest grades of unskilled labour or the ranks of the unemployed.

90A. It is certain that women engaged in industry will henceforth demand and secure higher rates of pay than were customary before the war: this for three reasons—they have known what it was to earn decent wages during the war, they have become much better organised, and they have become electors. The wages paid to women for "women's work" in the past have been about one-half the wages paid to men for "men's work," and this disproportion was maintained in some cases even where women and men were engaged on the same job. The formula now current among women workers is one of "equal pay for equal work." If this means equal pay for the same job irrespective of economic value, it can only lead to women being excluded from

all jobs for the performance of which men are better endowed, and their relegation to particular kinds of lower-paid employment. If it means equal pay for the same output the tendency will be the same, by reason of the discontinuity of women's service as compared with men's, and their lower measure of reserve capacity. "Equal pay for equal economic value" is a firmer though less easily estimated basis for a world in which competition is still a prevailing force. It falls a long way short of the current formula, and it flouts one of the basic principles of Trade Unionism, but it has the advantage of being workable, and it is a great improvement on past practice. While the industrial employment of an increasing number of women cannot be regarded without misgivings, any suggestion that the remedy is to make industrial employment unattractive by keeping women's wages low is not to be entertained. To regard the womanhood of the country as a mere reservoir of untapped labour-power is altogether to misapprehend the nature of national life; but women who from necessity or choice become breadwinners are entitled to receive the full value of their services, and any attempt to discriminate unfairly against them is economically and socially injurious both in itself and in its reactions upon the general level of wages.

91. Finally, there remains the problem of boy and girl labour. During the war, many children have become wage-earners before arriving at the statutory working age, and have been put to work in which they have no future, and are receiving very little instruction of general utility. In the case of these juvenile workers the primary necessity is to make good the interruption of their education, both general and vocational.

92. The general situation with regard to stop-gap and emergency workers will be somewhat relieved by

the fact that many women who would normally have quitted industry for domestic life have deferred doing so until after the war. The places vacated by them will be available for those who are returning to ordinary employment from the war industries. In the main, however, the problem is similar to that of demobilisation, and must be treated on the same lines. As in the case of returned soldiers, the transition may be eased by Government orders for reconstruction work and for undertakings of national utility. The special difficulties presented by the case of the new women workers, with no previous industrial training, and the boy and girl labour taken on for war purposes, will require separate treatment. The only way in which these workers can be raised above the level of unskilled Labour or assured permanent work, is by the adoption of a comprehensive policy of technical and vocational education, directed to fitting them for those trades in which there are the best prospects of employment.

92A. The need for making good the education of juvenile workers has been recognised by making the unemployment donation for boys and girls between 15 and 18 contingent on their attending an approved course of instruction. This, however, is at the best a partial remedy.

(iii) **Industrial Friction.**

93. Whatever emergency measures may be adopted, the avoidance of friction depends upon an agreement between Labour, Management, and Capital as to the future organisation of industry. Such an agreement must be based on frank recognition of the existing grievances of all parties and can only be attained by bringing home to the minds of each class the dangers involved in conflict and the advantages to be gained by

co-operation. The possibility of such an agreement will be discussed in the concluding section of this Memorandum.

III.—CONSTRUCTIVE MEASURES.

(i) Industrial Efficiency.

94. The first essential of Industrial Efficiency is the will to produce, which can only be obtained by providing sufficient incentive and promoting confidence. It is therefore dependent upon a satisfactory solution of the fundamental problem.

Subject to the satisfaction of this primary requisite, much may be done to promote efficiency by an all round improvement in our industrial organisation. A number of practical steps in this direction are suggested below.

(*a*) *Physical Well-being.*

95. The basis of all national progress, whether industrial or social, is the health and physical well-being of the people. Any improvement in this respect must be sought along two lines—the improvement of conditions and the spread of knowledge. The conditions which exist at present in the over-crowded areas of our towns and in many of our villages render healthy life impossible. The progress of physical degeneracy must be arrested by increased attention to the care of child life, the improving of housing conditions, both in town and country, and the creation of open spaces. These steps are essential not merely to the efficiency of the working class, but to the health and character of the nation. Closely connected with this question is that of healthful conditions of work. Not only justice and humanity, but sheer economic necessity should prompt us to enforce strictly all regulations of factory and other work in the

interests of health, cleanliness, and decency. It is equally important that ample opportunities and facilities should be afforded to all industrial workers for rest, recreation, and exercise. Neither efficient workers nor healthy and self-respecting citizens can be obtained if any part of the community is denied access to the materials of social life. The assurance of a minimum standard of maintenance, enabling sufficient food and clothing to be provided for every member of a family, is bound up with the question of wages and must be taken into account in any consideration of that question. While the difficulties in the way of establishing a general minimum wage by State action are great and probably prohibitive, the wage rates in any trade should bear a definite relation to the cost of living. A healthy public opinion and the common sense of employers should both be brought to bear upon the dangers arising from an inadequate standard of life. To ensure full value being received for the money spent on food, the laws against adulteration should be strengthened both in their provisions and enforcement. Adulterated food and impure milk are still responsible for much malnutrition. All these questions are fundamental, and unless they are attended to we can look for no great progress; but in order to obtain the best results a simultaneous effort must be made to extend knowledge and training. The work already being done in the schools in the direction of physical training and the teaching of elementary hygiene, is excellent; but with greater national attention to these subjects, resulting in further financial provision, it could be largely extended. The same remark applies to the teaching of domestic economy. While the workers are rightly suspicious and resentful of grandmotherly interference, an infinite amount of waste and loss could be saved by

spreading among all classes a sounder knowledge of how to lay out the family income and employ the domestic equipment so as to obtain the best return. No class is free from the reproach of wasteful expenditure and inefficient methods and a knowledge of simple facts in elementary economics should orm part of the teaching in all schools.

95A. In dealing with all such questions as housing, the feeding of necessitous school children, the free provision of medical treatment, infant welfare, and maternity assistance, it is necessary to bear in mind that no form of State subsidised action will relieve us from the duty of paying attention to the fundamental economic problem. Direct State action may be rendered necessary by the results of past neglect ; but as a permanent solution of the problem it is opposed both to sound economics and to the development of individual freedom and personal responsibility. The only real solution of the problem is to raise the economic condition of the mass of the people to the level at which they can procure for themselves the elements of a decent and healthy life. The operation of the Trade Boards Act described in paragraph 83 and of the Joint Industrial Councils discussed in Sections "D" and "E" should assist to this end.

(*b*) *Mental and Manual Efficiency—The Primary Schools.*

96. The foundations of mental and manual efficiency must be laid in the primary schools. There is observable among some industrialists a recurring tendency to regard all but the barest rudiments of general education as useless and even injurious to the average run of working-class children, and to urge that at an early age all but the most promising should be trained solely with a view to fitting them for a specific occupation. This

course, however, is open to serious objections, both from the social and from the industrial point of view. The effects of technical instruction at a very early age are undoubtedly injurious to mental development. It must inevitably be acquired mechanically and without understanding, and the cramping effect of a purely utilitarian education upon intelligence and character renders it a poor preparation even for industrial life. From the social standpoint there are grave disadvantages, both to the working class and to the community as a whole, in restricting the education of any children to their training as operatives. At the same time, the connection between the general education given in primary schools and industrial efficiency is close and may be rendered still closer. The modern educational systems, which aim at fostering the child's intelligence and developing its powers of self-expression even more than at imparting instruction, can be made to form the best possible basis for subsequent specialised training. At present the elementary schools still suffer to some extent from the pressure of stereotyped codes laying an undue emphasis on " book-learning," and the development of the child-mind is too often choked by cramming in the upper standards. What is wanted is not that those who have the welfare of the industrial class at heart should seek to limit the time and attention given to general education, but that they should ally themselves with those educational reformers, within the schools as well as outside them, who are striving to simplify the curriculum and to lay increased emphasis on the formative side of education. Special attention should be given to that part of the course which is devoted to bringing out the child's powers of observation and placing it in an intelligent relation with its environment. The " eye and hand training " which already

forms a large part of the work is capable of great extension. To confine it to preparation for any particular trade would be to rob it of most of its educational and much of its industrial value. Its purpose is to perfect the instrument of which subsequent vocational training will teach the use. Experience shows that instruction in any subject is acquired more quickly and more thoroughly if it is postponed until the mind and senses of the child have been thoroughly and painstakingly prepared to receive it. Education along these lines will produce at the same time efficient workers and intelligent citizens ; and the development of the communal and team spirit, by the organised games which are coming more and more into favour, will play its part in both these relations. Our hope for the future must lie largely in co-operation between the industrialists and sociologists, who can best indicate the national requirements, and the practical educationalists who are entitled by training and experience to indicate the methods of attaining them.

(c) Mental and Manual Efficiency—Continuation Education.

*97. The work of the primary schools must be carried forward and developed by the improvement of our system of Continuation Education. There is no greater source of national waste than that which takes place by the premature withdrawal of our children from school life, just at the age when they are best fitted to profit by it. The figures in this respect are so startling that they are worth quoting. In England, out of two and three-quarter million boys and girls between the ages

* This paragraph has been allowed to stand as it appeared in the original edition. A brief note as to the effect of the new Education Act will be found in paragraph 97A, but the argument is so important in view of what remains to be done that it seemed better to leave the original paragraph intact.

of 12 and 16, nearly 1,100,000 get no further education after the age of *thirteen*. Of the remaining 1,650,000, the great bulk are educated, mostly in the elementary school, only until the age of fourteen. Only 250,000, or one in eleven, go to proper secondary schools, and in most cases they are there only for a short time. These figures make it easy to understand the superior success of Germany in so many departments of activity. That success is not due to the character of the education received by young people in Germany. It is due to the fact that so very much greater a proportion of young people in that country receive any systematic education at all during the all-important years between 14 and 18. The same is true of University education which, whatever its quality, is far more widely diffused in Germany than in this country. Both for the sake of the future of British Industry and from the point of view of the development of intelligent citizens, it is essential that means should be found by which general education can be continued after the close of the primary school period. This is the more important because the conditions of modern industry are such as to make it impossible to rely on apprenticeship as a generally satisfactory method of industrial training. The methods of attaining the desired end remain to be considered.

Evening Classes.—Continuation education in this country has for many years past existed in the form of evening schools. These have rendered much good service, but attendance has been voluntary and the number of students has always been small in proportion to the whole number of juveniles employed in industry. Moreover, attendance at an evening school for one, two, or more hours, after a 9½-hour day in the works, puts a heavy strain on mind and body, and in the case of the keenest and most promising youths, has often resulted in

complete breakdown. Evening classes are thus open to serious objection and further progress can hardly be expected from a development of the system.

art-Time Day Schools.—The method of evening schools having been found unsatisfactory, should be replaced by a system of compulsory part-time day Continuation Schools for all young persons between 14 and 18 who are not receiving whole-time education. Employers, as a whole, must be required to follow the example already set by many among their number, who allow their young employees a substantial period every week for attendance at school. These Continuation Schools, if they are to do the best for their pupils, must not be purely technical or specialised in character, but must continue the general civic education from the point where it was left at the primary school, and must lay due stress on the physical side of development and on the corporate life which is the essence of the " public-school spirit " in the schools of the well-to-do for boys of the same age. Education at this stage must still be primarily formative in its purpose : and it is because British schools of the older type have always kept this larger aim steadily in view that they have developed the qualities of adaptability and initiative which the war has revealed. The true period for specialisation and the perfecting of industrial, as of professional training, is after the age of 18, for it is only then that most young people become fixed in what is likely to be a life-long occupation, and have the necessary knowledge and general equipment to understand the bearings of the special work which falls to their lot. For this specialised training the part-time school, with skilled craftsman teachers, affords the best opportunity. The combination of vocational instruction in the case of younger pupils who have developed a special bent towards any par-

ticular craft with the continuation of their general education, is already provided for, to some extent, by the Junior Technical Schools which have been established in many of our large towns.

The Universities.—Much more could also be done to bring the University life of the country into closer touch with the professional and industrial classes. A University should not only be a training ground for the recognised professions, but a centre of research in connection with the industries of the country. Moreover, it has a distinctive and peculiar part to play in what has come to be termed the work of adult education. It should form a meeting place for those engaged in every department of life, and the natural home of the thought and discussion of the country on public affairs. Used in this spirit, the Universities should go far to redeem the country from the shallow and sectional discussions which have disturbed it in recent years.

97A. By the provisions of the new Education Act the leaving age in the public elementary schools has been raised to 14, and Local Education Authorities are empowered to raise the age to 15 by means of bye-laws. The employment of children under 12 in any industry is absolutely prohibited, and that of children between the ages of 12 and 14 is restricted. Compulsory attendance at continuation schools between the ages of 14 and 18, with a minimum of 320 hours in the year, was contemplated in the Bill as originally drafted; but the continued education of young persons between the ages of 16 and 18 was subsequently postponed for a period of five years, and the minimum attendance between the ages of 14 and 16 was reduced from 320 to 280 hours annually. The Act was thus considerably weakened, but both in this respect and in regard to other admittedly necessary reforms such as

a reduction in the size of classes, the Minister of Education was hampered by the existing shortage of schools and teachers, and by war conditions. It is imperative that the work begun in the new Act should be vigorously continued as an essential part of the programme of national reconstruction, and that whatever money is needed for the provision of schools or for raising the level of the teaching profession should be found.

(*d*) *Labour-saving Machinery.*

98. There is no question that an increase in the industrial output could be obtained by a wider utilisation of labour-saving machinery. From the Employers' point of view, the cost of an improvement of this kind in existing plant would be repaid in a very short period and would yield a high return on the capital invested. The Workman, however, usually resists and obstructs, or, at any rate, resents its introduction, and before such extension can be advocated as an item in the programme of reconstruction, the grounds of this opposition must be examined from the point of view of the Men as well as of the Employer.

99. The strongest form assumed by this hostility rests upon a human and not upon an economic basis. It arises from a profound dislike of seeing handicraft replaced by the machine and the craftsman relegated to the position of a machine minder. The argument that the use of automatic machines will increase output leaves this objection untouched, because the question is not one of the worker's remuneration but of his position and self-respect. The tendency of work under modern conditions to become a mere mechanical routine and of the worker himself to become dehumanised during his hours of labour is at the bottom of the wide-spread

intellectual revolt against the industrial system. This feeling is not only a natural one, but is based upon sound instincts. It must be taken fully into account in any discussion of the subject.

100. It will be admitted by most of those who have thought upon the question that a complete return to the old conditions of handicraft is impossible. It cannot, at any rate, be contemplated as a practical programme for the near future. The conditions of modern life involve an ever-extending amount of repetition work done to precise measurements. In work of this kind, whether it be done by hand or by machinery, there is little room for exercise of the higher faculties of craftsmanship. The defence of labour-saving machinery from the human standpoint is that it removes the sheer muscular drudgery from such work and enables a greater amount to be produced in shorter hours and with less strain and exhaustion to the worker. Moreover, the increased complexity of machinery is continually operating in the direction of restoring the balance, by calling upon the operator for a care and a degree of skill approaching more nearly to craftsmanship. This tendency would be largely fortified if more care were taken to explain to operators the purpose of their task, and the part it plays in the process of production. There is no reason why even the unskilled labour connected with labour-saving machinery should not be based upon a foundation of intelligence and responsibility in the worker which would preserve his self-respect. Nor must it be forgotten that the construction and maintenance of labour-saving machinery gives rise in itself to the employment of a large amount of highly skilled labour.

101. The chief economic objection of the worker to the introduction of labour-saving machinery arises from his

belief, unhappily founded on experience, that its immediate effect is to lower his wages or deprive him of his job. With some qualifications, this objection is well-founded. That such a result is not invariable arises partly from the fact that many labour-saving machines are very costly, so that a wise employer will offer a journeyman's wage to anyone who will work them to their full capacity, rather than pay a labourer's wage for them to be worked at half or two-thirds capacity. Moreover, the ultimate effect of labour-saving machinery is to lower the price of the article produced and thereby to increase the demand for it, which, in its turn, will react upon the demand for labour. It remains no less true, in the main, that when a craftsman's job passes to the machine, that special skill which is his sole stock-in-trade loses its monopoly value and he stands in danger of sinking from an employed craftsman to an unemployed labour unit.

102. The existence of cases of individual hardship does not, however, prove that the introduction of labour-saving machinery is, in the long run, economically injurious to Labour as a whole. That such cases of hardship should arise is inevitable in all industrial progress, as well as in every other department of life. Any sudden change in industry, whether due to new inventions, to fashion, or to changing conditions with regard to markets or raw material, involves a similar displacement. To resist the forces of change is impossible, and the attempt to retard them is generally productive of waste and friction. The better course is to develop the new trade or system rapidly and efficiently and at the same time to do all that is possible to bridge over the period of transition and protect the individuals affected. In the case of labour-saving machinery this duty is particularly incumbent upon the employer.

because the change is one introduced by him for his own profit. It is his duty so far as possible to provide alternative work for the men displaced, to take advantage of the normal fluctuations of staff to spread out the period of reduction, to allow time for men who cannot be retained to find another job. The only course, however, which will go to the root of the opposition to the introduction of such machinery, is for the employer to take the workers into his confidence ; to explain to them what is proposed ; to discuss with them, through their representatives or their Trade Union, the machinery required to meet the demands of competition, the rate of its introduction, the conditions under which it is to be worked, and the wages to be paid to the operators. It is only by the co-operation of Employers and Employed to introduce and use labour-saving machinery as a means of increasing efficiency of production, and not merely for the purpose of cutting down wages while increasing profits, that the advantages to be derived from its use can be attained with the minimum of dislocation and loss to individuals. At the same time a better system of education, tending to produce all-round competence and adaptability, would go a long way towards placing the worker above the prospect of disaster due to a change in conditions.

(dd) Payment by Results.

102A. The system of " payment by results " has been widely extended during the war, and there is little doubt that where this system can be applied with the goodwill of the workers its result is to increase output. On the face of it, there appears to be no reason why any one should object to being paid by piece, provided the rate is fair, and many people are unable to see anything but sheer perversity in the traditional hostility to piecework of many of the Trade Unions, especially

in the engineering trades. Nevertheless, this opposition is by no means without basis, both in theory and in practice. There are many workmen whose objection to piecework is based on principle, on their belief that payment should be proportioned to needs rather than to capacities. There are others who object to the system on the ground that it tends to subordinate quality of output to quantity, and to place a conscientious craftsman in a worse position than a man who scamps his work. But there is also a very practical reason for the hostility to payment by results. Men have had too many experiences of accepting a piece rate, putting all they knew into the job under the incentive of high earnings, and after a week or two having the rate cut, so that in the end they were working twice as hard for little more than their old-time wage. That has not been an occasional incident: it has been a practically universal procedure. The employer was not without excuse. Often the largely increased output under piece payment revealed plainly that a man had previously been doing far less than he could and ought to have done, and it was exasperating to see a man actually benefiting from his own past shirking. Again, competition sometimes forced on an employer the choice between cutting rates and losing business, owing to the rate having been fixed on an inadequately ascertained datum. Be that as it may, rate-cutting has damned piece-work in many industries. Where its introduction could not be resisted, its object of securing maximum output was frustrated; for it became a rule that no man on piece-work should allow himself to earn more than time and a third—anything more than that was considered impolitic.

102B. From the earliest period of the war, the Engineering Unions protested against the extension of piece-

work in their industry. The protest was overborne on grounds of imperative national interest, and a guarantee was given that rates once fixed should not be cut during the war. As was inevitable, some rates were fixed altogether too high, some were fixed too low, and all kinds of jealousy and friction arose among the piece-workers themselves. Not only so, but it is notorious that unskilled workers on piece tasks have in many cases been earning far higher wages than the highly skilled men who had taught them to do their repetition jobs, and who were themselves engaged on work requiring skill and experience. Boys and girls often took home more money than the foreman. To even things up a little, the 12½ per cent. time-workers' bonus was given. The anomalies and jealousies resulting from that are a matter of history. But payment by results in the munition trades had its reactions on other industries in which highly skilled workers of long experience found themselves earning less than unskilled, often juvenile, munitioneers. Within recent months the discontent thus engendered has very nearly led to a national strike of railwaymen. When all the costs and consequences of payment by results in the munition trades are taken into consideration, it is an open question whether its compulsory introduction has proved a gain.

102c. Payment by results is a convenient arrangement where quality of product can vary only within narrow limits or where the machine sets the pace; but it is no universal panacea for industrial ills. If men cannot be got to do a fair day's work for a fair day's pay, something is wrong that piecework will not cure. Given a healthy industrial condition, the convenience of piece-payment may in many cases outweigh the theoretical objections. But certain essential conditions must be observed. First, it must be understood from

the start that rates cannot be fixed " once for all "; nothing can be settled once for all in a changing world. There must be periodical revisions; and they must be made in joint conference with all the cards on the table. Secondly, the price or datum line must not be fixed by guesswork, or averaging, or bargaining; it must be based on a searching analysis of the job, followed up, if necessary, by a long trial run by an independent rate-tester. Thirdly, if the piece-worker has to mark time by reason of bad works organisation, or is hindered by bad material or tools, the employer must make good the loss. If these conditions are observed, and the atmosphere is favourable, piece-work may, as in a few cases it has already done, induce maximum production without creating jealousies and friction. If the nature of the work is such that the payment can be made to a group or a department, to be divided among the workers on a scale agreed by themselves, even the deeper objections to piece work can be met. The " group-bonus system," which encourages the team spirit, and avoids jealousies between individuals, has more than once proved a marked success, and is the only system of payment by results which is approved by the Engineering Unions. Whatever method be adopted, full explanation, careful fixing and periodic revision of the datum, voluntary agreement on the part of the workers, and good faith on the part of the employer, are essential. Many ingenious modifications of " straight " piece-work have been invented, such as the Halsey, the Rowan, and the Weir premium-bonus systems. Plausible arguments are advanced for the superiority of these systems; but, speaking generally, they resolve themselves in practice into an attempt to obtain for the employer the advantages of piece-work without paying the price.

(e) *Works Organisation.*

103. No method of increasing output is more promising in theory than that known in America as " Scientific Management " ; but none is more open to abuse and frustration in practice. It is based on the conception of a works in which the whole routine, down to the last detail of every operation, is organised by the management, acting through a staff of efficiency experts. So far as concerns the " routing " of work through the shops, no objection can arise. Confusion, over-lapping, delay, and waste are avoided and the course of the work is made to run smoothly and rapidly. These are true functions of Management, and the more thoroughly they are performed the more efficient will be production and the less the strain on the workers.

104. With regard to the functions of Labour, the methods of Scientific Management are more open to question. The idea is to analyse and time the physical movements made in the performance of each operation on every job ; to reduce each task to its simplest elements ; to construct a routine from which every superfluous effort or movement is eliminated ; and to train workmen to follow the prescribed schedule as a coach might train a boat's crew to use their oars. The reactions of environment and the limitations of fatigue are studied ; no overstrain is allowed ; rest periods are provided. An astonishing increase in output can be achieved along these lines ; so that unprecedentedly high wages can be and are paid to those who will work under the system. Nevertheless, it is regarded with profound dislike and distrust by the general run of workers, and in a great many cases attempts to put it into practice have had to be abandoned.

105. The reason usually given by the men for their hostility is that the employer, while paying higher wages,

takes care that a much more than proportionate increase is effected in his own profits, so that the ratio of distribution becomes less favourable to Labour than before. But this, though a natural ground of soreness, is not the main reason for the workman's opposition. Underlying all economic suspicion is the worker's instinctive aversion to becoming a mindless automaton, performing without variation a cycle of mechanical movements which do not lead to increased general proficiency, which open the way to no higher grade of employment, and which are prescribed not by himself or by the traditions or master-craftsmen of his class, but by an outside and unsympathetic authority in the shape of the scientific expert. Before the undoubted advantages of motion training can materialise in workshop practice, full security must be given against these evils. This can be done only by introducing the system with the full voluntary co-operation of the men ; and such co-operation can only be secured by first putting the whole proposition before them, explaining frankly the risks to be faced as well as the benefits to be obtained, and transforming the whole constitution of the works in such a way that the men themselves may have an interest in the new system and some share of control over the working of it.

(*f*) *Labour Legislation.*

106. It is clear that organised bodies of workers and employers must in the immediate future play a greater part in determining the policy and direction of our economic life. Many industries, however, are not well organised ; and only about one-third of the whole working population is enrolled in Trade Unions. The greater portion of the unorganised workers are women, young persons, and children, whom our labour laws are especially intended to protect. Whatever may be said in favour

of voluntary agreements, it is inevitable that the protection of women and young people must for the time, be in large measure left to the State. The first need is for a revision of our whole code of labour laws, with a view to their co-ordination and the eradication of those anomalies and historical accidents which for no real reason establish different standards and conditions for protected persons. In the second place, there is a strong case for a further limitation of hours in the case of employees in factories and workshops, and distributive shops, and for a very considerable improvement in the environment in which work is carried on. For healthier workplaces, the provision of dining and rest rooms, are absolutely necessary in the interests alike of industrial efficiency and of social welfare. In general, it may be said, that our Labour Legislation should be thoroughly overhauled and strengthened to meet the demand for a higher general standard of life, in such ways as will increase the self-respect, dignity, and efficiency of the protected workers. The whole task of bringing our industrial legislation on all sides into conformity with the new national needs, should be undertaken with the active co-operation of Labour and Employers; indeed, new developments should generally be based in the first place upon the joint recommendations of Employers' Associations and Trade Unions.

(g) *Reform of the Patent Laws.*

107. The original purpose of the existing patent laws was (1) to promote the commercial development of inventions, by giving the inventor a monopoly in the patented article for a term of years; and (2) to ensure a full account of the invention being published, in order that when the monopoly period expires, anyone may be in a position to make, sell or use the patented device or

process. As they stand at present, the laws do not adequately fulfil these intentions. It is becoming increasingly common for patents to be obtained or acquired for the sole purpose of preventing development, in the interests of an existing process. The fees charged also require revision. Many minor inventions though important as far as they go, and entitling the inventor to the protection of the patent laws, will not yield a return proportionate to the heavy fees demanded in the later years of the term. Moreover, the effect of high patent fees is to place the inventor, if he is not a rich man, at an unfair disadvantage as compared with the capitalist, though both are equally necessary to placing the invention on the market. There is a tendency to forget that what the inventor gives to the community in exchange for a temporary monopoly is an account of his invention from which the community derives permanent benefit. To consider patent fees merely as a source of revenue is, in the long run, economically unsound. There is every ground for believing that the pre-eminence of America in the production of ingenious small tools and appliances is mainly due to the superiority of her patent laws. The whole matter requires careful reconsideration from the threefold point of view of stimulating invention, encouraging production, and the protection of the consumer. An effort should especially be made to devise some means whereby patentees of small means can obtain guidance, assistance, and protection in the commercial development of their inventions.

(*h*) *The Encouragement of Research.*

*108. The encouragement of Research in connection with the application of Science to Industry was, before

* This paragraph has been re-written.

the war, better appreciated by some of our trade rivals than by ourselves. During the war much has been accomplished. The Committee of the Privy Council for Scientific and Industrial Research has itself carried out or directly inspired and paid for a considerable amount of work, as in the cases of the Fuel Research Board, the Tin and Tungsten Research Board, the Food Investigation Board, etc. It has also promoted the formation of Research Associations in several industries, which are financed partly by subscriptions from the Employers' Associations and partly by subsidies from a fund of £1,000,000 placed by Parliament at the disposal of the Committee. Research Associations on these lines have been created in the Woollen and Worsted, Cotton, Scottish Engineering, Shipbuilding, Metallurgical, Scientific Instrument, Photographic and several other industries. In other cases, notably in the Iron and Steel industry, the manufacturers have preferred to finance their own Research Associations without State subsidy. The encouragement of Research has been suggested as a subject for consideration by the Joint Industrial Councils set up on the lines of the Whitley Report, and if this suggestion is actively taken up it may have two important effects. In the first place, it is very desirable that Labour should be actively associated in research work. Not only is Labour profoundly interested in the results of research, as expressed in new processes and methods of work, but such association would go a long way towards securing the active interest and participation of Labour in the development of Industry. In the second place, it may be hoped that the Joint Councils, whose scope is very broad, would take up the question of research not merely from the point of view of increased output or cheaper production, but from the point of view of improving

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the quality of the product and of the public service rendered by the industry. In this connection the encouragement of design and craftsmanship is as important as that of Scientific Research in the strict sense of the word. The establishment of a British Institute of Industrial Art, under the joint control of the Board of Trade and the Board of Education, is a welcome new departure, and there is nothing which would do more to create a sense of the worthiness of industrial service than a closer association of Employers, Workers, and Experts, for the purpose of extending the connection between Industry and the Applied Arts.

(*i*) *Improved Methods of Distribution.*

109. What has been said thus far has had special reference to manufacture; but efficiency in the distributive side of industry is no less important. To produce a good article at a moderate cost is not enough; the process is only complete when it has been delivered to the customer. Both transport and selling methods in this country are capable of improvement. The question of transport is of special importance in the case of agriculture, the development of which has been gravely hampered by the lack of railway or motor facilities. Both in regard to agriculture and manufactures, the extension of these facilities and the fixing of rates require close attention on the part of traders, the railways, and the State. The system of co-operative collection and distribution by means of light railways and motor services, which has been so successful in Ireland, could in many cases be usefully applied for bringing local products to the market. The arts of selling, publicity, window-display, delivery, careful study of the requirements of the public, the personal element in service, the training of commercial travellers, all require increased attention. The planning

and equipment of shops and offices, the training of the staffs and the organisation of routine are as important as the equivalent processes in manufacture; and as in production, the best results can only be obtained by fostering the intelligence and initiative of employees and cultivating the "team-spirit." At the same time, the services of the specialist, the advertising or window-dressing expert, are as important to the distributive business as those of the scientist and inventor to the manufacturer.

(*ii*) *Industrial Combinations.*

109A. The economic system under which our industries are carried on is still commonly, and in the main properly, spoken of as the "competitive" system, but this term requires some modification in respect of several of the larger industries. In many trades, unrestricted competition has given place to collusion or combination between erstwhile trade rivals and, in other cases, to the amalgamation of previously competing firms into one great consolidated business. The movement in this direction was already proceeding at a rapid rate before the war, but it has been greatly accelerated during the last four years. We have not had in Great Britain anything so imposing as the American Trust and the German Kartell, but it would be a mistake to suppose that our manufacturers have been behind those of other countries in substituting combination for competition; the movement has proceeded along other lines, better suited to British conditions and the British character, but it has been just as vigorous and perhaps more thorough. Our business concerns have kept their individuality more, but they have worked in ever closer concert through the medium of agreements, associations, and federations; while in some cases they

have become fused in great " combines." In many ways this movement is natural, inevitable, and salutary; for there is a point beyond which unregulated competition leads neither to efficiency, progress, nor cheapness.

109B. But as combination among traders and manufacturers proceeds, that safeguard against the abuse of monopolistic power which competition provides, no longer exists, and it becomes increasingly possible for groups of firms, acting in concert, to keep out intruders and extort unwarrantably high prices from the consumer. Whether there are other automatic safeguards on which reliance can be placed for security against abuses is not yet clear. If not, some kind of public supervision is called for. The whole matter is at present being investigated by a Committee appointed by the Minister of Reconstruction, and the Report of that Committee, when presented, should provide material for a clearer judgment. But the facts already public seem to show that our manufacturers and traders have been too much disposed to limit the scope of their Associations to the prevention of undercutting and over-production. That is no small gain to the community as well as to the industry, but trade associations will not have fulfilled their true purpose until they are made the active means of improving the organisation of the industry—by disseminating knowledge of methods and costs of production, by making arrangements for reducing the costs of marketing, by encouraging specialisation and the allocation of orders to those firms best equipped for executing them, and by improving or weeding out the inefficients among their component members. Trade combinations that win and keep their place by superiority of service are to be welcomed; those that use monopoly as a shelter for inefficiency, or as a means of circum-

scribing individual enterprise, require drastic treatment at the hands of the Consumer or the State.

(k) Banking and Credit Facilities.

110. The solid and cautious policy of British Bankers has been a main foundation of the general financial soundness which has made this country the credit centre of the world. It would be an irretrievable loss if their reputation in this respect was allowed to suffer. Nevertheless it is probable that they could afford greater assistance to Industry than they have done in the past, without running such risks as would in any way jeopardise their stability. In view of the probable necessities of the situation, it is very desirable that the leading bankers should study for themselves how far it may be possible for the Banks to work in closer touch with Industry and lend their invaluable support to its future developments.

111. The condition of Industry after the war will render it particularly desirable that the centralisation of Banking by the large Joint-Stock Banks should not be allowed to hamper the discretion of trustworthy Branch Managers in making the local advances on the strength of non-paper collateral and of established character which were a useful feature of the older system. A wise use of this power would enable the Banks to render valuable assistance to traders, without involving the disadvantages inherent in the German conception of the relations of Banking and Industry.

THE NECESSITY OF SOUND FINANCE.

111A. The financial situation created by the war will render it essential that the administration of the national finances should be conducted on sound and prudent lines. It will be necessary for the Government to continue borrowing for some time to come, and

there will be many imperative calls upon the national revenue for objects of national utility or social reform. At the same time, it must be remembered that the national resources are not inexhaustible, and that the disregard of economic considerations which was to some extent justified and necessitated by the war cannot be indefinitely continued. There is an urgent need for close and careful scrutiny of the national expenditure, with the object of avoiding waste and securing due value for money spent. The tendency to propitiate vested interests, or to shirk the difficulties of such tasks as the securing of productive employment for demobilised men, by a prodigal expenditure of public money, must be resisted. So far as is possible, the sums needed for carrying out programmes of reconstruction and reform must be obtained by drastic taxation and by cutting down wasteful expenditure, rather than by adding to the National Debt. Any saving on the armament votes which may be rendered possible by the political situation may very properly be earmarked for such purposes.

The Danger of Panic Economy.

112. It is, however, necessary to exercise at least equal care that a reaction from the lavish spending necessitated by the war does not lead to an outbreak of panic economy in State expenditure. Nothing could create a worse feeling and temper than any appearance of stinginess towards the men who have fought for us, whether in connection with the treatment of the disabled or the schemes for reintroducing the demobilised men to civil life. These are matters of national responsibility which cannot be left to any private efforts involving the stigma of charity. Nothing could be a more false economy than to allow the work of education—

technical or general—scientific research, housing, or the improvement of the national health. to be obstructed at a time when the whole welfare of the nation turns upon increased efficiency. Money spent for these purposes is not expended on a luxury, but is a paying investment, perhaps even an insurance.

(ii) Increased Saving.

113. Capital for the repair and improvement of the national plant and the reconstruction of devastated areas abroad—which will provide work at home—can only be furnished by people producing much, spending little on consumption of goods, and saving the balance.

114. There is real need for an educational campaign to explain the principles of economy, whether with regard to spending less or spending more wisely. Such questions as the comparative effect upon employment of expenditure upon luxuries and investment in productive industries are very little understood. There is a vast amount of wasteful expenditure by the rich which is either due to sheer thoughtlessness or is excused by the assumption that it " makes work." There is also a great deal of wasteful expenditure by the poor, which is due either to lack of training in household economy or to unfavourable conditions.

115. It is necessary to bear in mind that the saving and investing class is composed at the present time almost exclusively of the comparatively well-to-do. If any agreement for the settlement of industrial difficulties is arrived at which results in a wider distribution of wealth, it will be necessary to consider what can be done to make working-class investment, whether by individuals or groups, easier, safer, and more attractive. The Co-operative movement, Mutual Insurance and Friendly

Societies, and the management of existing Trade Union Funds may supply hints as to the best means of attaining this end.

116. There is a danger to be avoided in urging working class "thrift." The man who stints himself or his family in the necessaries of physical, intellectual, or emotional life is rendering no service to the nation, whatever capital he may accumulate. Up to a certain point the unstinted consumption of the material of life is of definite value in producing industrial efficiency and capacity for citizenship. But with increased income and a better acquaintance with the right use of wealth a point is reached at which an increasing margin becomes available for legitimate saving. It is probable that a greater feeling of security and responsibility would of itself lead to the useful employment of this margin.

117. In the immediate future, however, the savings necessary for capital renewal will have to come mainly from restricted consumption on the part of the well-to-do. The cutting down of expenditure on luxuries not only liberates labour for the increased production of necessaries, but renders capital available for investment in productive industries. Economy of this kind does not diminish the total demand for goods or labour. Even if the money be left in the bank, it is used as a basis for the credit needed for industrial development, and sets up a demand for the instruments and materials of production. The volume of demand is not affected, but only its character.

(iii) **Assured Markets.**

118. Assured Markets are essential to steady production. They will be found by British industry (*a*) in the Home Demand; (*b*) in the Overseas Dominions; (*c*) in Foreign Trade.

(*a*) Home Demand.

119. The Home Demand depends first of all upon the general prosperity of the people. If confidence and credit are maintained and earnings are large, the increase of spending power will be reflected in a brisk demand for goods. In this connection the question of agricultural development, discussed below, is important, as tending to increase the spending power of a large number of people who have hitherto formed one of the poorest sections of the home market. For the first few years after the war the general demand should be guided and restrained by the need of increased savings, necessitating moderation in consumption as well as increased output. The use of these savings for the renewal of the national plant will, however, create a strong demand in those trades concerned with the manufacture of the instruments of production. As soon as the process of capital renewal has been accomplished, the special necessity for restricted consumption will cease and the demand will become general, the annual balance of production over consumption serving for the requisite additions to capital.

*120. The war has galvanised into new activity the movement in favour of conserving the home market to the home producer by putting some kind of embargo on competitive imports. The " Report of the Committee on Commercial and Industrial Policy "† reflects this revival of industrial nationalism, but carries us hardly any nearer a practicable protective scheme which will not work more harm than good. The circumstances arising out of the war, instead of simplifying the fiscal question as at one time seemed likely, have made it immeasurably more complex. True, the

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* Paragraphs 120—122 have been re-written.

† Cd. 9035. Price 9d. net.

persistence of war passions will ensure popular support for measures directed against competitive imports from Germany, but even that apparently simple item is complicated by the plain fact that a substantial indemnity can be paid only in goods. As regards schemes of Colonial Preference, the scarcity and dearness of food the world over will make it virtually impossible for any British Government to levy import duties on foreign foodstuffs; but without such duties the Colonies can have no preference on their principal line of exports. As regards the protection of the home market against foreign manufactures, we have now to face the question whether it would be judicious or seemly to make the end of the war the occasion for levying duties on the goods of our late Allies—no ably Belgium, France, the United States, and Japan.

121. Yet there is one way in which the issue is simplified; if the feeling in favour of giving the home manufacturer a preference in the home market has increased, the necessity for doing so has diminished. Three new factors will combine to conserve home markets to home products. First, for years to come freights will be high, and the local producer will have the increased protection that arises from increased cost of transport; second, Britain will be a debtor instead of a creditor as hitherto, and the foreign exchanges, reflecting that condition, will have the effect of putting a premium on exports and a penalty on imports; and, third, severance of communications during the war, with its resultant need for each country to be self-providing in respect of many commodities previously imported, has short-circuited the current of trade and provided the means and the habit of buying home products.

122. The plea for a change in fiscal policy has necessarily undergone modifications in the course of the

war. At one stage the demand was for protection for key industries. Narrowly interpreted, the term "key industries" meant industries engaged in the production of those articles which had been mainly imported from enemy countries and which proved to be particularly needed for purposes of war at the very moment when their import had ceased. This plea was due to confusion of thought. It by no means follows that the special products required for the making of war in 1914 would also be the pivotal ingredients of war material in 1954. More broadly interpreted, the phrase may be taken to mean any commodity which, unimportant in itself, is essential to the manufacture of large classes of goods, and particularly to goods which may be expected to be required should war arise. This is sounder ground, and the considerations involved will no doubt receive closer attention in the future than in the past. It seems highly probable that some more direct and less unwieldly method of nursing essential industries will suggest itself than a general tariff. But if a list be made of the articles essential to efficient military effort, it will be found to include at least two-thirds of the ordinary articles of commerce, and an island nation must decide whether it will be self-supporting in all but non-essentials, or whether it will take part in world trade and rely in the event of trouble upon its power to maintain sea-communications.

(*b*) Empire Markets.

123. Imperial Preference, as we have said above, will be prejudiced for some years to come by the shortage of food; but here also political considerations run side by side with economic. The desire for the closest possible union with the Overseas Dominions has, of course, been intensified by the events of the war; but

it is open to doubt whether the spontaneous and splendid rally of the Dominions has not given a setback to the contention that fiscal ties were necessary to the permanence of the Empire. It is possible that they might introduce an element of discord, and create a suspicion of attempted control by the Mother Country which would render them a disruptive rather than a unifying factor. In any case the question is mainly a political one, to be argued on political grounds, but with a due allowance made for its economic effects.

(*c*) Foreign Markets.

124. Success in Foreign Markets will depend, as before the war, upon the production of a desirable article at an attractive price, and upon the skill with which goods are brought to the attention of buyers. It is agreed by almost all business men that there is room for great improvement in the organisation of selling. Up-to-date methods of publicity must be adopted. Industrial concerns will need to unite for the joint cultivation of foreign markets, sinking their individual rivalries and jealousies in the common object, receiving much more active aid from the Board of Trade and the Consular Service than has hitherto been given. A first hand study of foreign markets, more efficient representation abroad, better co-operation between merchants and shipowners, greater watchfulness by Government in cases of infringement of British Trade Marks, are all measures the need for which was apparent before the war and will be increased by the severity of competition after peace is signed. The contention that appointments to the Consular Service should be given only to men of British birth and business training will be emphasised. On the other hand it is a constant complaint of our most efficient Consular representatives that so little use is made of

their offices by traders. The need of studying the requirements of foreign markets and of greater adaptability in respect of meeting local demands, packing, quotations in metric measures and foreign currency, and the use of foreign languages, will all be brought to the front. The utility or otherwise of creating a Ministry of Commerce or National Trade Agency will require full examination and discussion.

*125. One matter stands out from the involved issues of fiscal policy as a subject for drastic action: the practice of dumping goods upon a market at less than the economic price. Whether, as is sometimes alleged, British manufacturers are even more guilty of this practice than most, or whether, as is often complained, they are the especial victims of the practice, is immaterial to the broader issue that dumping is a vicious perversion of the true objects and methods of trade. The extent of the practice has always been grossly exaggerated; but it has unquestionably been present as an element of private or national trade policy. A general import tariff, unless it be very high, is no protection; and the difficulty of dealing with particular cases of dumping is that every manufacturer who finds himself being undersold by the foreigner asserts as a matter of course that the competing imports are being dumped at less than cost price, even where they are in fact being sold at a handsome profit because they are more efficiently produced. It is almost impossible for any Government to test the truth of allegations of dumping, and if such allegations be made a ground for levying punitive duties, the possibilities of a high tariff being built up piecemeal are self-evident. The evil is one for international

* Paragraphs 125-127 have been re-written.

action and might well stand as a permanent item on the agenda of any League of Nations. Meanwhile trade associations, if they will buckle down to setting their own industrial house in order, have fairly efficacious remedies in their own hands.

126. Whatever changes in fiscal policy be determined upon, there should be no pretence that either free imports or triple-tier tariffs, or sliding scales, or any other of the various fiscal arrangements, are in themselves a sovereign specific for industrial ills. Organised Labour is under no such delusion. It pays cold homage to the free import system, but its preference is based not upon any profound conviction that the system of free imports is a better trade policy, but rather upon its objection to raising revenue by indirect taxation. It may be taken as certain that any fiscal policy designed to pay the charges on the war debt out of the taxation of necessaries will meet with fierce resistance.

(*d*) The League of Nations and Trade War.

127. The whole question of international trade as an instrument of national political purpose is now subject to the outcome of the proposal for a League of Nations. It is an essential feature of this proposal that, while the members of the League shall be free to adopt whatever fiscal system they choose, they shall not discriminate between members of the League. It is essential that this point should be clearly and definitely recognised. The project of a League of Nations as the only possible permanent security for peace and justice in international affairs has taken a firm hold in this country, and any attempt to wreck it by pressing forward an incompatible policy would be strongly resented.

128. We shall save ourselves from many pitfalls if we keep steadily in mind that industry and war are totally dissimilar operations. War is a conflict, and the object of war is destruction. Industry is a process of co-operation, the object of which is production. Again, the conflict of war and the competition of trade are different in kind as well as in degree. The object of conflict is to inflict injury. The object of business competition is the opportunity to serve a customer. War is competition in its absolute sense and in its most violent form. If nations co-operate in war it is for the purpose of conflict with others. Trade is competitive only in its processes; its end is co-operation. We have learnt by experience that the organisation and processes of peace are ill-adapted to the needs of war. The processes of war are equally ill-adapted to the conditions of Industry and Trade. We may have to choose between War and Trade. Let us at least recognise that it is a choice, and not confound the functions of opposites.

(iv) **Land.**

129. We have not dealt here with the theory that the root of all economic evils is the private ownership of land and that whatever may be done to increase the output of wealth, the increase will automatically be appropriated by the land-owning class, in the shape of economic rent. In the broad sense this theory is demonstrably unsound. It is certainly not the fact that the increased proceeds of the great industrial development during the nineteenth century have been absorbed into economic rent. The general increase of rent is so gradual and laggard a process compared with industrial progress that it may be left out of account here. Should a rapid advance in agricultural prosperity take place after the

war and be followed by a marked increase in rents, threatening to absorb the extra earnings and discourage further progress, the power of the State may have to be invoked.

130. The question of land ownership and economic rent is the less pressing at this juncture in that there are unmistakable signs of the breakup of many of the large landed estates, owing to the inability of their proprietors to keep them going on the old lines.

130A. The difficulties at present existing in procuring land for building or cultivation are, in the main, part of the general economic problem. If the wages received by the cottager or small urban householder allowed him to pay an economic rent for decent accommodation, or to effect purchase on fair terms through a building or co-operative society, a great part of the difficulty would vanish. So far as land for cultivation is concerned, the association of small holders for more effective cultivation and the hire of capital and machinery will enable land to be acquired, either by purchase, or on lease, with a minimum of risk to the individual holder. A simplification of the system and reduction in the cost of transfer and registration of titles would also prove of very considerable assistance.

130B. Nevertheless, the fact remains that there may often be urgent social needs for the acquisition of land which the owner has no desire either to sell or to develop. The question has been much obscured by controversialists who ignore all augmentation in values through clearing, fencing, or other improvements, and all differences in the productive capacity of the land itself. It remains true that the right to withhold large quantities of an urgently needed commodity from the market cannot properly be conceded.

130c. At the same time, the exercise of an autocratic power of expropriation, whether by a State Department or by Local Authorities, is objectionable both in principle and in practice. Arbitrary confiscation is never a sound economic resource, nor are departmental officials invariably the best judges of local needs. The compulsory cultivation of land under the Defence of the Realm Act has in many cases produced good results; it has also produced such anomalies as the breaking up of valuable pasture for crops, while land equally suitable for tillage was allowed to lie waste. The Report of the Committee dealing with the Law and Practice relating to the Acquisition and Valuation of Land for Public Purposes* recommends that powers should be given for the compulsory acquisition of land whether by Public Departments and Local Authorities, or by any private company or individual who can prove to the satisfaction of a suitable Independent Authority that his "undertaking" serves a public purpose. They suggest that the "Sanctioning Authority" should not be a permanent standing tribunal, but should be selected annually by a Parliamentary Selection Committee, from members of the two Houses and men with general experience of affairs and public responsibilities, other than experts as such. They propose that a right of appeal to Parliament should be granted in certain cases. These proposals deserve and will doubtless receive full consideration; but it seems possible that a better method would be the establishment of permanent local Land Tribunals, containing representatives both of landowners and of the purchasing classes, together with members appointed by the State or the Municipalities, and a proportion of agricultural and building experts.

* Cd. 8998. Price 6d. net.

(v) Agriculture.

131. Far more promising than any land-nationalisation or single-tax project is the application to agricultural development of the same degree of thought, energy, training, education, and organisation as is devoted to manufacture. It is eminently desirable that British agriculture should be developed. It would render us more self-sufficing in the event of isolation, it would restore the balance of our national activities, it would give us a healthier and more vigorous population, and it would prevent the further overgrowth of our large cities with its consequent over-crowding. If agriculture has suffered neglect from our statesmen, it has suffered far more neglect from our industrial pioneers and organisers. The importance of improved facilities for transport, and of investigating the problem of agricultural credit, has already been urged (paragraphs 109 and 84). The multiplication of existing local Produce Societies for the co-operative buying of seeds, manures, appliances, feeding stuffs, etc., and the co-operative marketing of the produce in bulk, would do much to ensure the success of the small-holder. The education of village children should be brought into relation with their future work, just as that of town children is made the basis of industrial training. We have suffered much in the past from an inelastic curriculum applied indiscriminately, without any attention to the special needs of localities and classes. The observation and environment teaching of the primary schools should be directed to awakening interest in and understanding of the life around, and the eye and hand training to the perfecting of those faculties which will be most useful in agricultural work. At a later stage, direct vocational training may be given, either at special schools or in

daytime classes for junior workers. In this way it should be possible to make of the agricultural labourer a skilled worker, and to invest his work and life with a greater degree of dignity and interest, which will go far to counteract the drift towards the urban centres. The facilities for farmers and foremen to acquire a knowledge of scientific farming, stock rearing, and gardening, should also be largely increased, and greater encouragement given to research and experiment in connection with cultivation. With an improvement both in the management of the land and the efficiency of the workers, the problem of agricultural wages should be easier of solution, and a general rise in wages would enable the question of housing in rural districts to be tackled on an economic basis.*

(vi) **State Control and Public Ownership.**

131A. During the war, Industry has come under the control of the State to an extent hitherto unknown since the dawn of the mechanical age. In August, 1914, the industrial world was made up of self-directed, privately-owned business concerns, each of which was free, so far as the State was concerned, to buy, make, and sell, as seemed best in its own eyes. Since that date, the majority of these concerns have passed under the control, management, or virtual ownership of the State, and are being conducted as *quasi*-State-Services, under official regulation as to materials, work, sales, wages, prices, and profits. Practically the whole of the con-

* We have not thought it necessary to discuss here the effect of the Corn Production Act, which is, on the face of it, a palliative measure, only applicable so long as Agriculture is unable to stand on its own feet. Reference must be made to the very full report of the Agricultural Policy Sub-Committee of the Reconstruction Committee. [*Cd.* 9079.] Price 1s. 3d. net.

cerns engaged in the various branches of engineering have become controlled establishments ; the entire mercantile marine has been requisitioned ; the railways have been *de facto* nationalised ; the purchase and importation of the staple foods and raw materials has become a function of the State ; prices have been fixed for most of the more important articles of commerce and consumption. Meanwhile great factories have been built, equipped, staffed, and run, under the proprietorship of the State. The whole character of the national industries has been profoundly modified in the direction of public ownership and State Control.

131B. There are at least three attitudes towards this change, all of which find many supporters among instructed and competent judges. To some, this introduction of the principle of public ownership and State Control appears to be the only way in which the evils of unrestricted competition and commercialism can be averted ; they welcome the steps taken during the war as the first steps towards a revolution in the industrial system. To others, these measures appear to have been productive of little good and much evil even during the war ; they regard any prospect of their continuance as a threat to the very existence of British Industry. A third group recognise some measure at least of State Control as inevitable in time of war, but regard the principle as inapplicable, or only very partially applicable, to normal conditions. It is obviously impossible to discuss so large a question fully in these pages ; but in view of the magnitude and importance of the issues, it will be well to call attention to one or two leading considerations which must be kept in mind in any discussion of these problems.

131C. It cannot be said that the experiments made during the war have been in any way conclusive. In

the first place, the success of State Control during the war is still a matter of controversy. It is urged on the one hand, that the exercise of control by the State has restricted profiteering, ensured a more equitable distribution of necessary products, and promoted greater efficiency in manufacture. On the other hand, it is contended that State Control has hampered production and distribution by the substitution of bureaucratic methods for business initiative and resource; that it has not in fact reduced prices below the level which would ultimately have been reached by the operation of the ordinary economic laws, or has only done so by throwing the loss upon the tax-payer; and that it has opened a wide door to corruption and intrigue. It is impossible as yet to say how far the contentions put forward on either side are justified. It is certain that costly blunders have been made. It is certain also that much necessary and useful work has been accomplished. But in order to arrive at any conclusive judgment, we require more evidence than it has been possible to obtain or put forward under war conditions.

131D. In the second place, it must be remembered that the circumstances of the war were altogether abnormal, and required abnormal treatment. Both the effects and the special necessities of the war involved a violent dislocation of the ordinary course of industrial and commercial activities, which could be only counteracted by emergency measures. Whatever view is taken as to the success of State Control during the war, it affords no sufficient analogy or precedent for the continuance of that control in time of peace. On the other hand, it would be obviously unfair to place to the discredit of State Control as a system, defects inseparable from the working of a hastily improvised emergency organisation.

131E. In these circumstances, it is desirable that the direct control of Industry by the State should now be removed to as great an extent as the abnormal conditions of the transition period will allow, without prejudice to future action. In the meantime there should be instituted a careful and thorough enquiry into the working of State Control during the war, including an impartial audit of departmental accounts, and the taking of evidence from officials, manufacturers and merchants, consumers, representatives of Labour, and economic experts. While the experiences of the war cannot be conclusive, it should be possible in such an enquiry to distinguish to some extent between those merits and defects which are inherent in any system of State Control, and those which were incidental to war conditions, and thus to throw some light on the general question. Until this has been done it seems to be unreasonable to throw aside the system, however imperfect, under which our industries have been built up, in favour of another which has neither been adequately tested by experience nor properly discussed in the light of the material available.

131F. In its ultimate expression, the desire for State Control of Industry may, in some cases at least, take the form of a demand for State or Municipal ownership of the means of production and distribution. This is a big experiment which it is necessary to approach with caution. It has to be remembered that the success of public ownership on an extensive scale is contingent upon the ability of the State or Municipalities to run the industries at a profit. In the case of particular industries it may be desirable for social reasons that they should be acquired by the State or Municipalities even at the cost of running them at a loss. But every industry which is so run at a loss involves levying a tax upon those

engaged in all other industries, and this process cannot be indefinitely continued. Industry as a whole cannot be run either by private ownership, or by Guilds, or by Municipalities, or by the State, unless it shows a profit—unless, that is to say, the total value of the goods produced or services rendered exceeds the cost of production or running. Past experience in the working of State or Municipal industries, in this and in other countries, is not very encouraging in this respect. This does not mean that successful nationalisation of Industry is necessarily impossible, but it suggests that if it is decided to give the process of nationalisation a trial, it will be wise to proceed cautiously and by way of gradual experiment.

131G. It is obvious that certain industries are much better suited for such experiment than others. Such are those industries which are localised in their scope, in which the demand is assured and steady, the plant and processes comparatively permanent, and the character of the business naturally monopolistic; as contrasted with industries which are worldwide in their ramifications, in which the demand is fluctuating, the plant and processes subject to perpetual development requiring a high degree of initiative and responsiveness in the management, and the character of the business competitive. Railways, tramways, electrical power stations and gas undertakings are obviously better suited to nationalisation than shipping, manufacturing concerns, or mercantile operations. This does not mean that nationalisation is necessarily to be adopted in the one case, or is necessarily excluded in the other, but it suggests the lines which any experiment should take.

131H. In the case of some industries of a monopolistic character, it is possible that an alternative giving

better results than nationalisation might be found in handing over the management of the industry to an autonomous body somewhat on the lines of the Port of London Authority or the Mersey Docks and Harbour Board. Such bodies should be composed of members representing all the manufacturing and commercial interests affected by the industry, and all the classes of Labour engaged in the industry. These representatives would naturally be appointed by the Employers' Associations and Trade Unions concerned. There should also be members representing consumers and the general public, who might be appointed by Municipalities or by the State. All profits, after payment of a fixed rate of interest on the stock created for purchase or for working capital, should be applied in the first place to the improvement and cheapening of the service rendered by the industry, and in the second place to the relief of the local rates or the national revenue, or to works of public utility.

The Functions of Profits and Prices.

1311. In any examination of the benefits of Nationalisation or State Control, as compared with the present individualistic and competitive system, it will be necessary to take into account the dual function performed by prices and profits in the operations of industry and commerce. It is very common to speak of the "profit incentive" as if that were the only function of private profit which needed consideration. It would be absurd to deny the strength of the profit incentive; but it is quite possible to exaggerate its importance. The desire for wealth is probably less strong in most successful men of business than the pride of accomplishment. But profit has also another function whlch may

be spoken of as the " profit index." The making of a profit is the one tangible criterion by which the business man can test the efficiency of his work or the demand for his services. The price which he can obtain for any particular product or service is a rough-and-ready criterion of its value to the community, as compared with other products or services.

131K. The process may be summarised as follows :— (*a*) When demand exceeds supply prices go up ; (*b*) high prices spell large profits ; (*c*) large profits attract capital and enterprise ; (*d*) supplies increase ; (*e*) competition between suppliers brings prices and profits down ; (*f*) the weaker or less efficient suppliers are stimulated to better service, or, in default, they fail and fall out.

131L. There is no doubt that this process involves a percentage of waste, and that it is, moreover, affected by other factors which tend to destroy the accuracy of the price and profit index. Such factors are the possibilities of monopolistic exploitation, and the unequal buying power of consumers, which leads to the possibility of deriving high profits from the production of luxuries. The question of monopolistic exploitation will have to be considered in dealing with the question of industrial combinations. The influence of the luxury demand may be checked, when necessary, by taxation ; but it has led to the demand for more drastic treatment in the shape of State Control of Industry to secure the production of " first things first." It is, however, by no means certain that any centralised authority could effect the perpetual delicate adjustments of supply to demand requisite for the correlation of production to public needs, without a margin of waste and failure still greater than that produced by the operation of economic laws under the existing system. In the same way it is

doubtful whether State Officials, able to throw the burden of a mistake onto the public revenue, or to shelter themselves behind a departmental ruling, could reasonably be expected to show the same initiative, resource, and responsiveness to the fluctuations of public demand, as has been developed by the system of individual responsibility and the spur of a definite and tangible criterion of success. To say this is not to prejudge the question, which requires much fuller examination ; but it is essential that these points should be kept in mind in considering the question whether a change in our economic system would, or would not, have the result of better service to the public.

131M. It is important to remember also that whatever system be adopted, the results will depend upon the spirit in which it is worked, and that the application of a different spirit to the existing system would, in itself, result in very important modifications of its effects. The question of how far it is possible to effect such a transformation of the existing industrial system in the direction of substituting the idea of public service for the simple desire of gain is discussed in Sections " D " and " E " of this Memorandum.

132. To sum up very briefly what has already been said : We shall be faced after the war by an industrial situation of extreme gravity due partly to the intensification of the conditions which made for unrest before the war, partly to the difficulties inseparable from the readjustment to peace conditions. These difficulties can be met to some extent by the adoption of immediate remedial measures, a number of which are suggested above. But these measures, important in themselves, will not go to the root of the industrial problem. In like manner the increased production and

increased saving which will be essential to the renewal of the national capital and the restoration of industrial prosperity can be promoted by the study and solution of a large number of detailed questions bearing on Industrial Efficiency, Increased Savings and Assured Markets. Here again the fundamentals remain untouched. At the back both of the Emergency and the Constructive Problems lies the hostility between Labour, Management, and Capital which has, in the past, proved the greatest obstacle both to industrial efficiency and social progress, and which now threatens us with a crisis the dangers of which it is not easy to exaggerate. Unless we can deal successfully with this basic problem, no amount of skill in handling the secondary questions will save us. If we can deal with it successfully we shall have laid the foundation for the solution of all our other difficulties, and we may hope not merely to avert the threatened dangers but to establish industrial prosperity and social development upon a firmer basis.

D.—The Fundamental Problem.

133. In order that we may understand the nature and importance of the fundamental problem, it is necessary to examine a little more closely the essentials of industrial prosperity and its relations to national welfare.

133A. In the first place, it is necessary to recognise that material prosperity is at once necessary and subordinate to social progress. In the case both of nations and of individuals, quality of life is more important than abundance of possessions, and no methods of production or of industrial organisation can be tolerated which are detrimental to the health, self-respect, or character of the workers. We cannot afford to produce cheap goods by sweated labour; to lower the standard of quality or design in order to increase or cheapen output; or to increase the number of workers, or of hours worked, at the expense of health, education and family life. At the same time, we have to remember that quality of life presupposes a high standard of living. It is absurd to demand a high standard of citizenship or of moral and intellectual development from those who are unable to procure the elements of a decent, healthy, and self-respecting existence; and the possibility of securing such an existence for the great mass of our people depends, in the long run, upon our total production of goods and services.

134. The foundation of industrial prosperity is production. The material well-being of a nation demands first, the attainment of the possible maximum both as regards size and quality of output, whether of goods or services; secondly, the elimination of all waste of material or effort in the process of production; thirdly,

an equitable division of the proceeds of industry, enabling all those concerned in the creation of wealth to obtain a reasonable share of its material benefits. The social welfare of the nation requires that the conditions of work and the relations between the parties to industry shall be such as make for intelligent and self-respecting citizenship on the part of all concerned, and that the activities which occupy so large a proportion of men's time and powers shall be felt by them to be a fit and worthy employment of their energies. Any attempt to solve industrial problems which is concerned solely with the distribution of earnings must necessarily be inadequate. In the first place, the amount available for distribution depends upon the amount produced, and an attempt by any section of the community to increase its own share of the proceeds by a scheme of redistribution which ignores the necessity of increased creative effort, is apt to result in a shrinkage of the available total. In the second place, the questions which centre round wages and profits, important as they are, are not so vital as the questions of industrial relations and social conditions with which they are connected.

135. In order that production may be efficient both as regards the quantity and quality of output and the methods employed, it is essential that the supply of capital should be adequate and that the national plant should be kept up to date. The war has involved deterioration of plant and a heavy drain on capital. In order that capital may be renewed and the national plant repaired and kept in the highest state of efficiency it is essential that confidence should be maintained and savings increased. The accumulation of surplus wealth which we call capital represents the balance of production over consumption in previous years and is constantly being added to or diminished in accordance with the

ratio of goods produced to goods consumed. When that accumulation has been depleted, the deficiency can be made good only by an increase in the annual balance. It will be necessary to encourage economy in the consumption of goods and the investment of the resulting savings in productive industries. We must work hard and efficiently in order to produce more. We must spend less on luxuries in order that we may save more. We must increase confidence in the national industries in order that savings may be attracted into the right channels.

136. Increased production, increased saving, increased confidence—these are the three keys to the whole industrial problem.

137. Production may be hampered either in pursuance of a deliberate policy, or simply by the use of inefficient methods. The interest of Employers, as a general rule, is to increase output, the danger of over-stocking being met by improved distributive organisation and the opening up of new markets. Cases of restriction for the sake of keeping up prices occur mainly in connection with monopoly products, and the problem of counteracting the influences which make for restricted output in these cases deserves a more careful study than has yet been given to it. There is also a tendency, perhaps unconscious, on the part of some employers to throw obstacles in the way of increased output due to the exceptional efficiency of employees. They would rather have a smaller output produced by men receiving wages not above the customary limit than an increased output produced by men earning exceptionally high wages. This policy is not only unjust to the men concerned; it is shortsighted and uneconomic from the point of view

of the employer's own interests. On the other hand, the interest of the individual employer in maintaining a high standard of quality cannot be taken for granted, so long as large profits can be derived from the sale of inferior goods. Stronger action on the part of Trade Associations, and more general education of the purchasing public in standards of value, are needed both in the national interest and in that of producers of high class goods.

138. Much of the limitation of output on the part of Employers arises from inefficiency in management —conservatism in methods, the retention of badly-planned works and out-of-date plant, bad organisation, neglect of scientific research, the presence of " dead-heads " on the office staff. There is some reason to hope that the experiences of the war and the keenness of competition after it may lead to greater attention being paid to these points.

139. The limitation of output by Labour arises partly from the legitimate desire to restrict the hours of work in the interest of health, education, family life and enjoyment. These are considerations of social welfare which cannot be set aside. We must look for greater production rather from increased efficiency than from an increase in the number of hours worked. There are, however, large sections of Labour by whom a further limitation of output is deliberately practised in the assumed interests of their class as a whole. In some cases the motive is the honest but mistaken belief that the less work each man does the more there will be to go round. " Work " is regarded as an exhaustible fund, or at the best as a diminishable flow, and it is assumed to be in the interests of his class that each man should " use up " as little as possible. The fallacy lies in the conception of an inelastic " wages fund." Wages

come out of the stream of products, and other factors remaining constant, the distribution of wages cannot be widened except by an increase of the stream. In the case of trades in which employment is irregular and demand uncertain, the temptation to slacken work as a job nears completion is easy to understand, but the results of the policy are too wasteful to be contemplated with satisfaction. The remedy must be sought in a better organisation of the industries concerned which will give the workman greater security of tenure, and remove his fear of unemployment or relegation to lower-paid work as a result of exercising his maximum effort. A further cause of limitation of output lies in the natural differences of individual capacity. The workers believe that if each man were allowed to produce to his full power, the minimum standard demanded by the employer would be based on the performances of the quickest and most skilful and a "speeding-up" process would be introduced, involving either excessive strain or lessened earnings on the part of the majority. From this point of view, restriction of output is a sacrifice made by the ablest workers in the interests of their fellows. While such restrictions necessarily result in limiting the total output, it is obvious that Labour cannot fairly be asked to remove them unless some definite assurance can be given against the evils anticipated.

140. With regard to quality of output it is obvious that the workers' interest lies in the direction of a high standard which will improve the status of those concerned in the industry. Whether from the point of view of earning power or of interest and satisfaction in their work, the workmen have everything to gain by the standard of workmanship in their particular trade being raised. A general appreciation of this fact, resulting in greater attention by Labour organisations to questions

of craft training and quality of output would do much both to raise the position of Labour itself and to strengthen the hands of those employers who are striving for a high level of production, as against those who seek to make their profit out of the bad taste of bargain hunters.

141. It is clear that any restrictions placed upon production, whether by Employers or Employed, beyond those based upon the social needs of the workers, must be removed if the difficulties of the economic situation are to be faced successfully. In order to make good the wastage of war and raise the general level of industrial prosperity, the efforts of both parties must be united for the purpose of increasing the quantity of output and improving its quality. In order to avoid disastrous conflicts with regard to the distribution of earnings, the national income, the total sum available for distribution, must be not only maintained but increased. The prospects of success depend upon the willingness of both sides to face the facts of the situation and to throw aside somewhat of their mutual distrust. It will be necessary for Labour to abandon the policy of restricting output and to concentrate upon demanding adequate remuneration for the work performed. It will be equally necessary for Employers to recognise that efficient production is the only ultimate source of profit, that the policy of keeping down wages and cutting piece rates is opposed to their own interests, and that industry as a whole will benefit by any rise in the level of craftsmanship and production. There is to-day an urgent necessity for the removal of all obstacles to any man either working or earning to the full extent of his capacity.

142. The argument has brought us to the fundamental question which underlies all our industrial troubles—the relation between Employers and Employed. The limitation of production, whether by Labour restrictions on

output or cutting of piece rates by Employers, springs from the belief that the interests of Employers and Employed are inevitably and fundamentally hostile. If it can be shown that their interests are concurrent as regards production and only partially opposed even as regards distribution, the way will have been paved for a compromise which will leave both parties free to co-operate in the work of industrial reconstruction.

143. The relations of Employers and Employed are partly antagonistic as regards distribution, because it is to the interest of each to secure a relatively large share of the wealth produced. They are not wholly opposed, even in this respect, because it is to the interest of the employer that his workpeople's standard of life shall be sufficiently high to promote efficiency and afford a reasonable incentive to effort ; it is to the interest of the workman that the firm shall be sufficiently prosperous to provide steady employment. Good work cannot be expected from men who are ill-fed and insufficiently clothed, or who feel that they derive no advantage from increased production. Continued employment cannot be expected from a firm which is not making a profit on its business. The qualification becomes still more important when it is extended from the relations existing in a particular firm to industry as a whole. It is to the interest of all employers engaged in the supply of common commodities that wages as a whole should be good, in order that the purchasing power of their customers may be high. It is to the interest of the workers, who are also consumers, that firms producing articles of general use should be sufficiently prosperous to keep plant up to date and produce well and cheaply.

144. The interests of Employers and Employed are concurrent as regards production, because it is to the benefit of each that the total available for distribution

shall be as large as possible. The interest of the working class in increase of output may be limited by other than economic considerations. They will not accept for the sake of increased wages methods of work which involve loss of self-respect or a narrowing of their life by undue restriction of leisure. To this extent the interest of the employer may be over-ridden by considerations of social welfare. The real conflict is between his economic interests as an employer of labour and the social interests of the community of which he is a member. But the employer and employed are both concerned in increased *efficiency* of production, which implies equal or improved output at less cost to the employer and with less strain to the employed. Here, too, it is to be noted that the workman, as consumer, will benefit by any increase in the general efficiency of production.

145. The great obstacle to co-operation is the question of status. The ill-will of Labour towards Capital and Management is not wholly a question of their respective share of earnings. Friction arising over the distribution of earnings is in itself due quite as much to a sense of injustice in the machinery of distribution as to the desire for actual increase of wages. The fundamental grievance of Labour is that while all three are necessary parties to production, the actual conditions of industry have given to Capital and Management control not only over the mechanism of production, but also over Labour itself. They feel that the concentration of capital in a comparatively few hands has rendered fair bargaining between the parties impossible. A man who leaves his work without reason inflicts on his employer a certain amount of loss and inconvenience. A man who is dismissed without reason may lose his livelihood. While each great firm represents in itself a powerful organisation, apart from any Employers' Association to

which it may belong, the men employed by the firm are solitary units, having no power of collective action without calling in the Trade Unions representing the whole of each craft. In the last resort the only effective weapon of the Trade Union is the strike, and the loss inflicted by a strike or lock-out on the Capitalist Class is not comparable with the acute personal suffering of the workmen and their families. They feel therefore that in any dispute the dice are weighted against them.

146. There is also a very widespread feeling that Labour as a whole is faced by great disadvantages in ventilating its grievances. The tribunals are composed, the Press is owned and run, by men of another class; and the complaint is frequently made that the Labour representative and the Labour case do not receive the fair play and courtesy which would be extended to those of their "opponents."

147. The attitude of a certain section of Employers who look on their employees as "hands," as cogwheels in the industrial machine, having a market value but no recognised rights as human beings, is bitterly resented. Still more offensive is the attitude which regards the working man as a very good fellow so long as he is kept in his place, and requiring to be guided and disciplined, but not to be consulted in matters vitally affecting his interests. Labour has come to know its power. It realises that it is an indispensable party to the production of wealth and it requires to be treated frankly as a partner with equal rights and equal responsibilities.

148. The grievances of the Employers are no less valid. They complain of deliberate limitation of output, slackness and inefficiency in work, short time and malingering, the lack of any feeling of responsibility. They point out that many leaders of Labour opinion carefully discourage any sense of loyalty to the firm—the source

from which the earnings of Capital and Labour are alike derived—that even a fair employer can feel no confidence that his workmen will back him up in a pinch. Any effort to improve the condition of the employees is regarded as a concession extorted from weakness and is followed by further demands which bear no relation to the condition of trade. Every period of prosperity produces a demand for higher wages; but no amount of depression is considered as an excuse for reverting to a lower scale. The Trades Union wage regulations place obstacles in the way of differentiation between the efficient and industrious workman and those who are less skilled or less hardworking. At the same time they render it impossible to continue in employment, without actual loss, men whose capacity for production has been decreased by age or accident.

149. The gravest complaint, however, relates to the insecurity of bargaining. The Employer's power to negotiate directly with his employees is restricted by the Union, yet bargains thus made with the men's accredited representatives are continually broken by those whom they profess to bind and the Union itself cannot enforce the agreement which it has made.

150. So long as the fundamental interests of Employers and Employed are believed by the majority to be purely antagonistic, no cure for the grievances of either side is likely to be found, since the wrongs of which both sides complain spring from that very feeling of hostility and suspicion.

151. The limitation of production carries with it a limitation of the possible amount of savings. If the total amount produced is low, the balance of production over consumption will be low also. But class-hostility hampers saving in other ways. The supposed clash of interests destroys the sense of responsibility in the use

of wealth. Discontent with economic conditions is productive of reckless expenditure. The man who feels his condition of life to be unworthy has no incentive to save, because he has no hope of substantial improvement in his condition. The worse that condition is, the greater is his need of amusement and palliatives to render it bearable. Sound investment is discouraged because the prospect of repeated outbreaks of industrial warfare makes confidence impossible.

152. We see, therefore, that the mutual hostility of Employers and Employed is the prime obstacle to the three essentials of industrial prosperity—Increased Output, Increased Saving, Increased Confidence. It is only from the removal of this obstacle that any one of the three great parties to the industrial process can look for a permanent increase of earnings.

153. We may therefore lay down these four broad principles as those which must guide our attempt to solve the Industrial Problem.

(*a*) **The first necessity of the Industrial Situation is greater efficiency of production. In order to meet the difficulties created by the war, to make good the losses of capital, and to raise the standard of living amongst the mass of our people, we must endeavour to increase both the volume and the quality of output.**

(*b*) **In order that this result may be obtained without detriment to the social welfare of the community, it must be sought for rather in improved organisation and the elimination of waste and friction than in adding to the strain on the workers, and must be accompanied by a change of attitude and**

spirit which will give to Industry a worthier and more clearly recognised place in our national life.

(*c*) **This can only be accomplished if the sectional treatment of industrial questions is replaced by the active co-operation of Labour, Management, and Capital to raise the general level of productive capacity, to maintain a high standard of workmanship, and to improve working conditions.**

(*d*) **It is essential to the securing of such co-operation that Labour, as a party to Industry, should have a voice in matters directly concerning its special interests, such as rates of pay and conditions of employment. It is necessary to create adequate machinery both for securing united action in the pursuit of common ends and for the equitable adjustment of points which involve competing interests. This machinery must be sufficiently powerful to enable both sides to accept its decisions with confidence that any agreement arrived at will be generally observed.**

154. There are many to whom these principles will not seem to go far enough. They are convinced that the only solution lies in a complete reconstruction of Society —the abolition of Private Ownership of Land and Capital, the establishment of State or Guild Socialism, the Re-integration of Industry, the Return to the Land, the break-up of the existing Trade Unions. Accordingly they reject the notion of co-operation between Employers and Employed as involving an abandonment of the first essentials of reform. If we were

discussing the abstract ideal of Society, it would be necessary to meet their criticisms by discussing each of their proposals on its merits. But the present issue is a narrower one. We have to deal with a definite and immediate danger—the prospect of an industrial crisis involving loss and hardship to all parties to Industry. It is obvious that no measure involving a radical reconstruction of the social system has any chance of adoption in time to avert this evil. On the other hand, the prospect of any specific programme emerging from a period of internal conflict is small. The results of social or political upheavals have seldom been those anticipated by their promoters. The men whose ideas gave birth to the French Revolution did not foresee the Terror or the Empire. The Long Parliament foresaw neither the reign of the Major-Generals nor the Restoration. If we are to find a way out of the threatened difficulties, we must do so by making the best use of the materials at hand, accepting the conditions under which we work and seeking to unite all classes in the pursuit of interests which are common to all. Whatever may be the ultimate direction of industrial progress, an advance is more likely to be founded on a first right step than to come through the chaos of industrial warfare and class-hatred.

155. The difficulties of devising any scheme of co-operation which shall be acceptable alike to Employers and Employed are great enough. It demands from both a clear understanding of their respective parts in the process of production, a measure of sympathy with the point of view of the other parties to that process and a just perception of the respective weight to be attached to conflicting and to common interests. It calls for a certain daring in experiment and for a willingness to make sacrifices, if needs be, for the common good. It requires both parties to abandon recrimination as to the

mistakes of the past and to approach each other in a new spirit.

156. These are great demands; but the emergency and the opportunity are also great. Whatever we may do, we may be sure that things will not continue to move quietly in the familiar grooves. The whole world alike of conditions and ideas has been violently shaken and a ferment has been set up out of which may come either good or evil, but in no event a reversion to the old order. We cannot alter the facts by ignoring them. Our only choice lies between the risks involved in abandoning ourselves passively to the forces of change and the effort required to harness them for our own ends.

157. To avoid chaos is much; of itself it would be worth no small sacrifice and effort on the part of all. The gain which might accrue to any class from conflict is shadowy and uncertain; the loss and suffering to every class alike are certain and heavy.

158. But to avoid danger is not all. It seems probable that we stand to-day at one of those definite turning points in human history where a generation of men has it in its power, by the exercise of faith and wisdom, by facing the problems of the moment without passion and without shrinking, to determine the course of the future for many years. If we can rise to the height of our opportunity we may hope not merely to pass safely through the immediate crisis, but to raise the whole tone and level of national and individual life.

159. Whatever action is taken must be the result of frank and full discussion between representatives of all parties to the question. Any attempt to enforce upon one party a scheme framed wholly by another would defeat its own object and precipitate the crisis. It will not do to look to the Government for the initiative.

Whatever part the State may play in the future of Industry, it cannot move in advance of the general level of opinion among those concerned. Most of the difficulties which have been analysed in this Memorandum apply with equal force to State controlled industries, and while the solution may involve legislative sanction or State action, the problem itself can be settled only by agreement between those chiefly concerned.

160. The first step towards agreement is to define the functions of the three parties to production.

Capital is necessary to a business for the erection of plant, the purchase of raw material, and working expenses. In order that capital should be used to the best advantage for the purposes of Industry, it is necessary that investors should display sound judgment as to the prospects and requirements of particular enterprises, exercising caution or daring as occasion demands.

Management is concerned with the disposition of the capital provided, the erection and employment of machinery and plant, the general organisation of the business, the placing and acceptance of contracts, the purchase of the raw material, and the sale of the finished product. The performance of these functions requires not merely a knowledge of the particular business concerned but of all which are in any way connected with it, a careful study of markets, of methods of distribution, and of financial conditions.

Labour undertakes the conversion of the raw material into the finished product, by aid of the plant and machinery provided. While the first requisite in the workman is a thorough understanding of his own job, the maximum efficiency can only be attained if he has a clear conception of the part played by his own work in the whole process of production.

These definitions are framed with a view to a manufacturing business, but they can be adapted, by changes which will readily suggest themselves and are not vital, to a distributive industry.

161. It is obvious that the functions of Capital, Management, and Labour overlap. In many cases the man who provides the funds of a business also directs its working. In such cases he performs both the waiting and risk-taking functions of Capital and Management's function of expert control. It is logical to regard his profits as consisting partly of interest on the capital provided and partly of remuneration for his services as manager. Again, a foreman or a ganger combines to some extent the functions of Labour and Management; and in general, the spheres of management and labour activity are too closely connected for any clear line of demarcation to be drawn between them. Capital itself represents the result of past services performed by all three parties.

162. This inter-relation of functions constitutes a real partnership* between the persons concerned in any business, whether as investors, managers, or workmen, or in any two or all of these capacities. At present the relation between them is unrecognised or only partly understood, and the result is to produce hostility instead of co-operation between the partners. The attention of all is apt to be concentrated on the points in which their interests conflict to the exclusion of those in which they are common.

163. This failure to realise the possibilities of co-operation springs largely from neglect of a fundamental principle. The first article of partnership is equality of

* The word partnership is here used in its widest sense and does not involve the acceptance of what are generally known as co-partnership schemes.

knowledge. At present the Workers have little knowledge of the capital risks, working expenses, establishment and depreciation charges of a business, or of the relation between their particular job and the general process of production. On the other hand, Employers have, as a rule, a very imperfect understanding of the Workers' point of view, the degree in which they are affected by economic and social considerations respectively, and the effect of particular processes and methods of working upon their physical and moral life. From this mutual ignorance arise innumerable misunderstandings with regard to rates of pay and conditions of labour which are capable only of arbitrary solutions, because neither side understands the standpoint of the other. It is probable that a large percentage of the disputes arising over rates of pay, the introduction of labour-saving machinery, hours of work, the demarcation of tasks, Trade Union restrictions, could be avoided or compromised, if Employers and Employed really understood the reasons for the attitude of the other party. In default of such understanding the dispute takes on the character of a trial of strength, in which each side is compelled, for the sake of principle and prestige, to put forth efforts disproportionate to the actual point at issue.

164. It has been said in paragraph 145 that the chief obstacle to co-operation is the question of status. The development of modern industry has turned the operative into a mere cog in the industrial machine. The average working man has no say in the management of the business and very little as to the conditions of his employment; he has no interest in the success of the firm, except that it should not collapse altogether; and the tendency has been more and more to reduce his work to a mechanical routine. The term "wage-slavery," as we have seen, embodies the revolt of the worker not

only against an unequal bargain but against a system which gives him neither interest, nor pride, nor a sense of responsibility in his work. To a large proportion of those engaged in industry their work has become something external to their personal life, a disagreeable necessity affording no opportunity for self-expression, the joy of creation, or the realisation of healthy ambitions. The result has been a serious impoverishment and enfeeblement of life and character and a permanent obstacle to industrial development. It is impossible for men in this position to take long views, or to consider innovations from the standpoint of industry as a whole. The opposition to new methods of working, labour-saving machinery, dilution of labour, scientific management, is only in part the result of specific and reasoned objections. It springs still more largely from the fact that these schemes are imposed from above and are presumed to be framed solely in the interest of the Employers. The opposition to them is, in fact, a revolt against dictation. On the other hand, the uncompromising attitude of Employers does not, generally speaking, arise from a tyrannical spirit or a mere desire for increased profits, but from impatience with the men's separatist attitude and their inability to realise the common dependence of Employers and Employed upon the produce of their joint exertions.

165. The same difficulty arises in the case of distribution of earnings. The worker feels that his labour is treated as a mere commodity, the market value of which may be forced down by the Employer, irrespective of any consideration of a decent standard of life for the Employed, and that he receives the reward of his toil, not as a matter of right or as the equitable division of the proceeds of joint effort, but as a dole fixed by the arbitrary will of the Employer or as a concession extorted by force. The Employer feels that each demand made

upon him represents a raid upon his profits limited solely by the power of the Workers' organisations and unaffected by any consideration of the working expenses of the business, provision for depreciation or dilapidations, or the building up of a reserve against future depression. In the confusion of thought arising from imperfect understanding, there is a tendency to regard the whole problem as centreing round the concrete question of distribution, which becomes a symbol of the general opposition of interests. The consequence is that disputes as to wages are often fought on either side with a bitterness and obstinacy altogether out of proportion to the amounts involved. In order to arrive at a clearer conception, it is essential to disentangle as far as possible the economic and non-economic factors. If the question of status can be settled, the main obstacle to an agreement as to distribution will have been removed.

166. The problem is, therefore, to settle this question of status in some way which shall give the workman the sense of self-respect and responsibility which he desires, without interfering unduly with the employer's exercise of the necessary functions of Management. The Trade Union regulations, which have been so largely suspended by agreement for the period of the war, were mostly directed towards this end—the assumption by Labour of some measure of control over the conditions under which it works. They refer to wages, hours of labour, overtime and Sunday work, apprenticeship and the method of entry into particular occupations, the kind of work to be performed by different classes of workers, the methods of negotiation between Employers and Employed, and similar questions. In other words, they represent an attempt to substitute for the autocratic control of the employer over the working lives of his

employees a greater and greater degree of self-direction by the organised workers themselves, acting through their accredited representatives.

167. As a natural result of the assumed conflict between the fundamental interests of Employers and Employed, the action of the Trade Unions took the form, in appearance at least, of an attack upon the profits of the Employers and their right to control the conduct of their business. It was largely as a defence against the Unions that the great Employers' Associations came into being. After making all allowance for the occasional insubordination of Trade Union members and the lack of support given in some quarters to the Employers' Federations, the effect of these parallel organisations has been beneficial to both sides. Hitherto, however, the action of both groups has been almost entirely negative. They have placed restraints both upon tyranny and upon anarchy; they have succeeded in compromising many disputes and in restricting the occasions of open conflict; but they have done little or nothing to remove the continual undercurrent of latent hostility and divergence of effort which has hampered industrial development far more than the direct effect of strikes and lock-outs. They have protected the special interests which they respectively represent; but they have not risen to the conception of combined action in pursuit of their common interests. Valuable as their work has been, it can hardly be regarded as an adequate return for the ability, energy, and power of organisation displayed on both sides.

168. The explanation of the comparative failure of the Employers' Associations and Trade Unions on the constructive side of the industrial problem is to be found in their strictly sectional and defensive origin and outlook. Regarding themselves as entrusted with

the interests of one party to Industry and not of Industry itself, they have paid no attention to the problems and difficulties of the other side, and they have come together only when one had a demand to make of the other or when a conflict was imminent. Thus they have always met in an atmosphere of antagonism, and their negotiations have been carried on as between two hostile bodies. Exchange of views has come at too late a stage in the proceedings, when a stand has already been taken on both sides and prestige or prejudice forms an obstacle to concessions. What is still more important, their discussions have been confined to specific points of dispute and have not embraced the consideration of constructive measures for the improvement of industrial conditions and the increase of efficiency. Yet the possibilities of combined action which lie in these two great groups of highly organised and powerful bodies might transform the whole face of industrial life. Their united knowledge of both sides of the industrial process should enable them to throw light on every phase of its successive developments. Their united strength would render them, in combination, practically irresistible. But to secure the realisation of these possibilities the co-operation between the two groups must be continuous and constructive, and must be based upon a recognition of the common interests of Employers and Employed, both as parties to industry and members of the community. Employers must realise that both their own interests and the obligations of citizenship impose upon them the necessity of a sympathetic understanding of the lives and standpoint of those with whom they work and a willingness to co-operate, without dictation or patronage, in every endeavour to improve their material or social conditions. Labour must realise its direct interest in the improvement of industrial processes, the organisation of industry,

the standard and quantity of production, and the elimination of waste in material or effort. Both the Employers' Associations and Trade Unions must learn to regard themselves as joint trustees of one of the most important elements of the national life.

169. The machinery necessary for such co-operation will require to be created. The existing Conciliation Boards, or Industrial Boards on the Australian model, while they perform many useful functions, will not serve this purpose. These Boards are, in fact, independent Courts sitting to adjudicate upon claims in respect of which the parties are unable to agree. Such a method of adjudication is in many ways preferable to the alternative of leaving questions to be settled by conflict, as the result of a strike or lock-out. They enable Employers and Employed to contract on more equal terms. They result also in the production of detailed evidence whereby each side might, if it had the inclination, understand the case of the other. But here, too, the exchange of views comes too late and the parties meet not to co-operate but to oppose each other. Moreover, they are concerned solely with the settlement of specific disputes, and while they may continue to do useful work in this connection, they cannot provide the opportunity for that continuous and constructive co-operation of Management and Labour which is essential to any satisfactory solution of the industrial problem.

170. Something much more comprehensive is required, and the task of providing it will need very careful attention from those concerned. It is unlikely that any one scheme could be devised which would be applicable to all industries or in all localities. The utmost elasticity, whether in present application or in future development, is necessary to any system of industrial organisation,

for Industry itself develops and modifies day by day. But the general lines upon which development is possible can be deduced from the foregoing analysis of the difficulties to be overcome.

*171. In its simplest form, the new machinery would consist of Joint Committees, representing both the Management and the Works Staff. This method would lend itself readily to experiment by individual firms and could be applied even in the unorganised trades where no strong Trade Unions or Federations of Employers exist. At the meetings of such Committees any questions affecting working methods and conditions could be brought up for discussion by either side. The representatives of Management would be required to explain the nature and extent of any proposed innovation designed to increase output or economise effort—the introduction of new automatic machinery, time and motion study, standardisation of tools, analysis of fatigue, elimination of waste—and its effect upon the earnings of the firm and of the individual worker. This explanation should be as clear and full as possible, with the object of giving each worker an interest and sense of responsibility in his work, by making clear to him, through his representatives, the *reason* for the methods to be adopted and the relation of his job to the whole process of production. The proposals having been explained, the Workers' representatives would consider them from the point of view of the interests of the men employed, the relation between the different classes of labour, the strain on the workers, the amount of interest and intelligence put into their work. If necessary, they would put forward

* The scheme outlined in this and the following paragraphs should be studied in connection with the recent developments in industrial organisation described in Section " E."

modifications or safeguards for the protection of these interests. Where the result was to show a real divergence of opinion or of interest, it would be freely discussed, with a view to finding a way round and adjusting the balance between common and competing interests. In like manner, proposals for alterations in the hours or conditions of labour, in the interests of the health or social welfare of the workers, would be put forward by the Workers' representatives and discussed in the light of any objections on the score of expense or difficulties of working urged by the Representatives of Management. While the Representatives of Management would naturally be concerned mainly with the efficiency of the business and those of Labour with the immediate interests of the Workers, it is very desirable that neither should confine their attention to their own side of the business. A wise Employer will always have the interests of his staff at heart, and workmen who feel themselves to have a recognised interest in the business will have many suggestions to put forward for promoting its efficiency.*

172. In the staple trades, the method of Works Committees would require to be replaced, or supplemented, by Joint Boards composed of representatives of the Employers' Associations and the Trade Unions. Having regard to the differentiation of functions between Management and Labour and the large number of problems affecting one or both parties, which arise in a big industry, two co-equal Boards might be created in each industry, one representing Management and the other Labour, with a Supreme Board of Control co-ordinating the work of both. The functions of the

* An interesting account of experiments in this direction is contained in a pamphlet "Works Committees" (Industrial Reports No. 2) issued by the Ministry of Labour. Price 6d. net.

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Management Board would cover the " business " side of the industry ; those of the Labour Board would relate to conditions and hours of labour, the demarcation of tasks and everything that touches most nearly the life of the worker. Representatives of these Boards, meeting on the Supreme Board of Control, would deal jointly with all matters by which the interests of both parties were affected. Such questions as the Dilution of Labour, which is becoming increasingly important, yet which cannot be dealt with satisfactorily so long as it is approached from one side only, would be discussed by the Joint Board of Control, both from the point of view of efficiency in production and from that of the interests of the Workers and the position of the Trade Unions, In this manner it should be possible to construct and give effect to a definite policy and programme for each great industry as a whole, representing a reconciliation between the common and competing interests of Employers and Employed, and based both upon the desire to obtain the maximum of efficiency and the desire to obtain the best possible conditions for the workers.

173. In order to avoid the evils of inelasticity and over-centralisation, and to make due provision for the varying conditions of different localities and firms, it might be advisable to combine the creation of these Central Boards with an organisation of District and Works Committees, charged with the special care of local and individual interests and problems. The representation of such Committees on the Central Boards, and the delegation to them of local questions, would constitute a protection against the injustice which might otherwise be done by an attempt to equalise rates of pay in areas which differ widely as to the cost of housing and food, or in which the conditions of production and transport

produce important variations in working expenses. They would also serve as a protection to established workshop and local craft traditions against the deadening tendency to a mechanical uniformity.

174. In its most ambitious form, the Supreme Board of Control would resolve itself into a National Industrial Council for each of the staple industries or groups of allied industries. The members would be elected by ballot, each electoral unit, or pair of parallel units, returning one representative of Management and one of Labour. In many industries it would be desirable to find a place on the Council for representatives of the Applied Arts, both with a view to raising the standard of design and workmanship, and with the object of encouraging the human and creative interest in production. A Speaker of broad sympathies and experience, capable of directing and focussing the discussions upon the practical problems to be dealt with, would be chosen by mutual consent, but would have no casting vote, his capacity being purely advisory. Such Industrial Councils would in no sense supersede the existing Employers' Associations and Trade Unions, many sides of whose present activities would be unaffected by the creation of the new bodies. Matters connected with the sources and supply of raw material and the cultivation of markets for the disposal of the finished products would remain exclusively the concern of purely commercial federations of manufacturers, acting in conjunction with the State. The benefit side of Trade Unions and many phases of the internal organisation of labour by them would be similarly unaffected.* In other matters the connection between the old and the new bodies would be close,

* It should be clearly understood that the right to strike in default of agreement would remain unaffected. This point was made quite clear in the Whitley Reports.

without any loss of identity. The Unions and the Employers' Associations would send their delegates to the Industrial Councils charged with the defence of the special interests represented by them and equipped with special knowledge of their particular problems. The general policy outlined by the Industrial Parliaments would be carried out in detail largely through the older organisations.

175. The field of action open to the Industrial Councils would be very great. It would extend, for instance, to (*a*) the suggestion and consideration of improved methods and organisation ; (*b*) the maintenance of works discipline and output ; (*c*) the maintenance of a high standard of design and workmanship ; (*d*) the education and training of apprentices, and the conditions of entry into the industry concerned ; (*e*) the demarcation of tasks ; (*f*) the prevention of unemployment, the development of security of tenure in the trade and the decasualisation of labour ; (*g*) questions of wages and piece rates ; (*h*) the prosecution of research and experiment, and (*i*) the improvement of the public status of the industry. Where the Council represented a group of allied trades, it would naturally concern itself with the co-ordination of their work and the adjustment of their respective interests. In addition to the promotion of internal prosperity, the Councils would be able to give public utterance to the views and needs of each industry in its relation to the whole national life. They would take account not only of economic but of moral and aesthetic values. Their object would be not merely to increase the productive efficiency of the industry and to reconcile the competing interests of those engaged in it, but to emphasise the worth and dignity of industrial life and to enlarge the scope offered by it to the energies and ambitions of those concerned. It would be part of

their task to emphasise the close connection between industrial questions and those relating to education and social conditions. It might even be advisable to empower the Industrial Councils to apply for Board of Trade Orders giving legal sanction to their decisions—but this would necessitate careful watching, and the provision of adequate safeguards, especially in the interests of consumers.

176. There is, of course, a tendency in all great associations of industrial units to develop the danger of tyranny, which seems almost inseparable from a close corporation. If, however, it is found that the requirements of the time call for the creation of such organisations, it would be well to face this danger without flinching. The advantages to be obtained are enormous, and with the help of the legislature and the Courts the dangers can be met.

177. Whatever scheme is adopted, the essential thing is that it shall give expression to a real desire for co-operation between Employers and Employed. In the unorganised trades, Works Committees on the plan already suggested may be sufficient for present needs. The probability is that, with increasing prosperity and better understanding, the desire for organisation will grow, and the tendency will be to extend the scope both of Employers' and Labour Organisations and to increase their effectiveness, so as to give the Employers' Associations greater power to control the action of individual firms and to enable the Trade Unions to make agreements with a greater certainty of their being carried out. It is evidently desirable that the organisation of Employers and of Labour should proceed *pari passu*, with full mutual recognition, so that individuals or small groups on one side should not find themselves confronted by powerful organisations on the other.

When once a policy of co-operation has been introduced, its future development and extension may safely be left to time and experience. An attempt to lay down any definite and rigid scheme at the start would probably defeat its own object. The whole success of the policy depends upon the elasticity with which it can be adapted to practical needs and opportunities as they reveal themselves. It is obvious that, even in unorganised trades, it might be applied to many questions of works economy, with the result of stimulating care and efficiency on the part of the Workers, and giving Management a better understanding of their point of view, to the advantage of both. In the engagement of men and their allocation to different departments and jobs, it should be possible to take advantage of the special knowledge of both sides, by consultation between the Managers and the representatives of the works Staff as to the numbers and qualities of the men required. In some cases it might even be possible to appoint a permanent joint committee to deal with the question of the supply of labour, and the requirements of the work in hand.

178. It is probable that some time must elapse before the benefits of any such scheme as has been suggested could be fully realised. The change of attitude involved is too vital, the field of activity is too large to hope for any but gradual development. At the outset it might often happen that much of the discussion, either in a Works Committee, or a National Industrial Council, was obstructive or irrelevent. But it has been proved again and again that contact breeds mutual understanding and responsibility calls forth capacity. Without depreciating the part which may be played by Government and by independent experts in the regulation and encouragement of industry, the primary

essential of progress is that Industry shall have faith in itself.

179. There is nothing to be gained by minimising the practical difficulties. The task is one which requires the co-operation of the best brains engaged in the study of industrial questions, whether as Employers of Labour, Leaders of working-class opinion, or Economists. Premature action, based upon imperfect knowledge, or an ill-considered programme, would only increase the difficulty of the work. But with so much to be done and such great issues at stake, no time must be lost in preparing the ground. The inquiries which will be necessitated by the various phases of the Emergency Problem will throw valuable light upon the methods to be adopted in the larger task. The measures by which that problem is dealt with may be made the foundations of permanent reconstructive work. There is a danger, however, lest the very complexity and importance of the questions of reinstatement of demobilised men and readjustment of Industry to peace conditions should divert attention from the fundamental issues. It is essential that we should see the Industrial Problem as a whole, and should preserve a clear idea of the relation between its several factors and the proportionate weight to be attached to each.

180. It is the hope of those responsible for this Memorandum that the suggestions here put forward may prove of some assistance in attaining this central standpoint. They have attempted to trace the causes of that Unrest by which industrial troubles have been produced in the past, and by which the economic dangers arising from the war are likely to be accentuated. From this analysis certain broad principles have been deduced, and the general lines of their application indicated.

There are many aspects of the problem which have not been dealt with, or have only very briefly been touched upon in these pages. The details of a practical programme require much careful study and experiment. But whatever form the new developments may take, the essential preliminary is the adoption of a new attitude with regard to Industry, the recognition of national responsibility for industrial conditions, the recognition of the joint responsibility towards the nation borne by those who are engaged, whether as Employers or Employed, in its activities. To hold the balance true between the economic and the human side of the problem; to increase at once the extent and quality of output ; to make the work of each man, in any position, an integral and worthy part of his life as a citizen ; this is a task as truly national as that of victory in war. The unparalleled and undreamt of expansion of our military strength which has been called forth by the European struggle, may give us the measure of our capacity to meet the requirements of peace.

E.—Joint Industrial Councils and Trade Boards.

(*a*) Joint Industrial Councils.

181. By far the most important development of industrial organisation since the appearance of the first edition of this Memorandum has been the publication of the reports of the Reconstruction Sub-Committee on Relations between Employers and Employed, presided over by the Right Hon. J. H. Whitley, M.P., and the formation of Joint Standing Industrial Councils in several important industries, on the lines advocated by that Committee. In view of the importance of the "Whitley Scheme," and its strong resemblance to the proposals contained in Section "D" of this Memorandum, it seems desirable to give some account of the reports themselves and of the action which has been taken to give effect to them.

182. The terms of reference to the Whitley Committee were :—

"(1) To make and consider suggestions for securing a permanent improvement in the relations between employers and workmen.

"(2) To recommend means for securing that industrial conditions affecting the relations between employers and workmen shall be systematically reviewed by those concerned, with a view to improving conditions in the future."

183. In March, 1917, the Committee submitted an Interim Report, recommending the establishment in all well-organised trades of Joint Standing Industrial Councils, representative of Employers and Employed,*

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* Cd. 8606. Price 1*d*.

and in July of that year a circular letter was addressed by the Ministry of Labour to all the principal Employers' Associations and Trade Unions, asking for their views on the Report. By October, 1917, so many favourable replies had been received to this letter that the War Cabinet decided to adopt the Report as part of its reconstruction policy and instructed the Ministry of Labour to afford assistance and advice, where desired, in the formation of Joint Industrial Councils. In October, 1917, a "Second Report on Joint Standing Industrial Councils" was presented, further elaborating the scheme.*

184. At the present time Joint Industrial Councils have been established in the baking, bedsteads, bobbins, building, chemical, china clay, furniture, gold, silver, horological and allied, hosiery, leather goods, matches, paint and varnish, pottery, rubber, silk, and vehicle building trades. Early completion of negotiations is anticipated in the hosiery (Scottish Section), surgical instruments, waterworks, woollen and worsted (Scottish Section), and saw-milling trades.

185. The machinery suggested by the Whitley Reports is based on the principle of devolution. The Committee recommend that in addition to the National Councils, representing the whole industry, there should be created Joint District Councils and Works Committees, subsidiary to the National Councils. The District Councils would deal with questions or aspects of questions having a local character; the Works Committees would deal with all questions domestic to a particular establishment.

186. It is an essential feature of the scheme that the constitution of the National and District Councils, of

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* Cd. 9002. Price 1*d*.

the Works Committees, and of all sub-Committees of any of these bodies, shall be based upon the principle of equal representation and status of Employers and Employed. A typical Council will thus consist of an equal number of representatives appointed by the Employers' Associations and the Trade Unions, the Chairman being usually appointed alternately from the Employers' and the Workers' representatives. The exact lines on which Works Committees are formed will vary according to the conditions of the various industries, but in each case the lines adopted will represent the result of agreement between the Employers' Associations and the Trade Unions. The method of voting in each case is left to be agreed by the parties concerned. In the Councils hitherto formed it has usually been decided that before a resolution can be carried it must be approved by a majority vote of both the Employers' and the Workers' representatives, voting separately. This method has the advantage of avoiding any suspicion that either party might gain control of the Council for its own ends by talking over one or two representatives of the other side. It has the further advantage that this absence of suspicion would probably lead to fuller and more frank discussion; as neither Employers' nor Workers' representatives would hesitate to express their own views upon the merits of the case when they knew that they could only carry their opinions into effect by securing a majority of both sides, and that no stigma of treachery could attach to the expression of minority views. On the other hand, it has been suggested that this method has the appearance of emphasising a merely sectional line of cleavage, and that a sufficient guarantee of confidence would be secured by stipulating that the number of representatives of Labour and Management voting on any question should always be equal, whatever

the numbers present. This is, however, a question which each industry will naturally settle for itself in the light of its own special circumstances and requirements. In the same way each industry will settle for itself whether the representatives of Management and Labour are to be directly appointed by the Employers' Associations and Trade Unions, selected by the District Councils, or elected by ballot, each electoral district returning one representative of Management and one of Labour.

187. Whatever methods of representation and voting be adopted, it seems to be essential that special consideration should be given to the position of foremen and others occupying similar posts. These men are sometimes members of the Unions and sometimes not. In some cases they have their own Unions. Their functions partake partly of those specially belonging to Management, partly of those belonging to Labour. Their position in the works is one of great importance and they may become either a substantial aid or a serious obstacle to progress. The steps taken to ensure their representation will vary in each industry, but it would be a very serious weakness in the scheme if they were left out. Moreover, their presence as "cross-bench members" might be of considerable assistance in avoiding a purely sectional line of cleavage and substituting for it a new line based on principles and opinion.

188. The Ministry of Labour are willing to afford to all National Councils recognised by the Ministry, the assistance of a representative appointed by them to act as a liaison officer between the Council and the various Government Departments. The acceptance of such assistance is purely voluntary, and a nominee of the Ministry will only be appointed at the request of the

Council.* A majority of the Councils hitherto formed have, however, made this request. The nominee of the Ministry has no voting power, but acts simply as an intermediary between the Council and the Departments.

189. With regard to the scope of the Councils, the Ministry of Labour has made the following suggestions with regard to subjects to be considered by the Councils :

(1) Means to secure the largest possible measure of joint action between employers and workpeople for the development of the industry as a part of national life and for the improvement of the conditions of all engaged in the industry.

(2) Regular consideration of wages, hours, and working conditions in the industry as a whole.

(3) The consideration of measures for regularising production and employment.

(4) The consideration of the existing machinery for the settlement of differences between different parties and sections in the industry, and the establishment of machinery for this purpose where it does not already exist, with the object of securing the speedy settlement of difficulties.

(5) The collection of statistics and information on matters appertaining to the industry.

(6) The encouragement of the study of processes and design and of research, with a view to perfecting the products of the industry.

(7) The provision of facilities for the full consideration and utilisation of inventions and any

* See Memorandum by the Minister of Reconstruction and the Minister of Labour. Cd. 9085. Price 1*d*.

improvement in machinery or method, and for the adequate safeguarding of the rights of the designers of such improvements, and to secure that such improvement in method or invention shall give to each party an equitable share of the benefits financially or otherwise arising therefrom.

(8) Inquiries into special problems of the industry, including the comparative study of the organisation and methods of the industry in this and other countries, and, where desirable, the publication of reports.

(9) The improvement of the health conditions obtaining in the industry, and the provision of special treatment where necessary for workers in the industry.

(10) The supervision of entry into, and training for, the industry, and co-operation with the educational authorities in arranging education in all its branches for the industry.

(11) The issue to the Press of authoritative statements upon matters affecting the industry of general interest to the community.

(12) Representation of the needs and opinions of the industry to the Government, Government Departments, and other authorities.

(13) The consideration of any other matters that may be referred to it by the Government or any Government Department.

(14) The consideration of the proposals for District Councils and Works Committees, put forward in the Whitley Report, having regard in each case to any such organisations as may already be in existence.

The following have also been included among the functions of the Council in some of the provisional constitutions :

(i) The consideration of measures for securing the inclusion of all employers and workpeople in their respective associations.

(ii) The arrangement of lectures and the holding of conferences on subjects of general interest to the industry.

(iii) Co-operation with the Joint Industrial Councils for other industries to deal with problems of common interest.

Demobilisation and resettlement, the training of disabled soldiers and sailors, the position of returning apprentices, the priority of release of pivotal men from the Army and Navy, education, and the rationing of raw materials, are among the subjects which have already been taken into consideration by Councils formed under the scheme.

190. It is the intention of the Government to treat a Council which is recognised by the Ministry of Labour, as the Standing Consultative Committee to the Government, and the normal channel through which it will seek the advice of those engaged in the industry.

191. In this scheme of industrial organisation there are three points which seem to call for special emphasis.

In the first place, the scheme goes a long way towards securing industrial autonomy. It is true that the decisions of a National Industrial Council will have no statutory force ; but inasmuch as they will represent the considered opinion of the Employers' Associations and the Trade Unions, they will, in practice, be binding upon the industry as a whole, and will be capable of

enforcement. It will, therefore, be possible for the industry itself to deal effectively with its own problems, thus relieving the congestion of the Parliamentary Machine, and ensuring the consideration of industrial questions by those who are intimately acquainted with both the business and the human side of Industry itself. At the same time the relations between the Industrial Council and the Government will ensure full weight being given to the opinions of those engaged in the industry, in the drafting of any legislation affecting their interests. It will also enable the Government to bring to the consideration of the Council, for the purpose of guiding their decisions, considerations of national welfare—social or economic—which might possibly be overlooked by a purely industrial body.

192. In the second place, the machinery is de-centralised and elastic. The provision for District Councils and Works Committees is of the utmost importance, inasmuch as it ensures the direct discussion and settlement of local and domestic questions by those whom they immediately concern. This has two very important results. On the one hand it will avoid delay in the consideration of such questions and prevent the machinery of the National Council from being clogged by an accumulation of detail work. On the other hand, it will give to the workers in any particular area or workshop that direct participation in the control of conditions immediately affecting their daily life, which is the essential foundation of intelligent and self-respecting citizenship.

193. The relations between the National Councils, the District Councils, and the Works Committees will, of course, be close. In addition to dealing with local or domestic questions, it will be competent for a Works Committee to send up suggestions affecting the industry

as a whole to the District Council, which, in its turn, would pass them on for consideration to the National Council, which would either take action thereon itself or, if necessary, request the Government to do so. In the same way, any measure proposed by the National Council or suggested to the National Council by the Government could be referred for observations to the District Councils and Works Committees. The scheme thus combines, to a very great extent, the advantages of centralised organisation and of democratic devolution, while it affords also the amplest opportunity for the expression of minority views.

194. Moreover, it is obvious that the possibilities of future development are very wide. It is true that the scheme for the establishment of Joint Industrial Councils does not involve any immediate fundamental change in the existing industrial system, and does not indicate any preconceived new system as the ultimate goal of progress. They do, however, provide a simple and elastic machinery by which all the parties to any industry can be brought together for constructive co-operation in the development of individual concerns and of the industry as a whole. They set no limit to the transformation which may eventually be effected ; but they ensure that new methods of industrial organisation can be tested by experiment, and adopted or rejected in accordance with the teaching of experience. Proposals can be thoroughly thrashed out and considered in the light of the knowledge and ideas brought to bear upon them by all sides before they are put into actual practice ; and in the meantime, the ordinary work of the Councils and Committees will create an atmosphere of broader sympathies and clearer understanding in which the discussion of new issues can be carried on with a better prospect of general agreement and wise decision.

On these lines of unfettered, organic development, based on experience and actuated by a new spirit of co-operation and public service, it should be possible to obtain an industrial order satisfying the universal desire for a fuller, happier and more stable development of national and individual life. There is a great advantage in so framing our immediate programme that it shall neither involve the dangers of a step in the dark, nor shut the door on future development, nor confine the possibilities of progress to any single channel.

195. In the third place—and this is the most important point of all—the object of the Councils is not merely to settle or even to avert disputes, but to secure constructive co-operation in the improvement of Industry on its social as well as on its economic side. This purpose is manifest in the suggestions for the agenda of the Councils above quoted and is implied throughout the Reports of the Whitley Committee. But it is nowhere so well expressed as in the proposals for the Builders' National Industrial Parliament, which was already in process of formation at the time when the first Whitley Report appeared, and was based to some extent upon the suggestions contained in section "D" of this Memorandum. In these proposals, which were unanimously accepted by both the Trade Unions and the Employers' Federation, the object of the Builders' Parliament is said to be: "To promote the continuous and progressive improvement of the industry, to realise its organic unity as a great public service, and to advance the well-being and status of all connected with it." . . . "The spectacle of organised Management and Labour uniting their constructive energies upon a great programme of reorganisation and advance might transform the whole atmosphere of our industrial life. . . . It would raise the whole status of the industry and give

to its members a new pride in their work as a splendid public service. It would tend to break down the barriers that have so long confined and impoverished the national life and would promote the development of a real team spirit."

196. In this spirit the Builders' Parliament rejects altogether questions of arbitration and conciliation, for which machinery already exists in the industry, and includes in its Agenda not only such matters as the regularisation of wages, technical training, and research, but also industrial control and status of Labour, and " closer association between commercial and æsthetic requirements." With the object of facilitating experiment and progress, they suggest the development of two codes—a Compulsory Code, binding upon all members of the industry and dealing with agreed minimum standards, and a Voluntary Code " built up from the recommendations of the Improvements Committee for the voluntary, and perhaps experimental, adoption of progressive employers." This last suggestion appears to be well worth consideration by other Industrial Councils, as it would be of great assistance in allowing action to be taken a little in advance of that general level of agreement required for a compulsory code.

197. It is obvious that the possibilities of the Whitley Councils will depend upon the spirit in which they are created. If they are regarded merely as machinery for the settlement of disputes, or even as a means of increasing industrial efficiency, with the object of obtaining a larger sum for distribution as wages and profits, they will not take us very far. If, on the other hand, they are inspired by a genuine desire to raise the whole level of industrial effort—to enable Industry to perform better service to the community, and to render the work of

each man engaged in it a more satisfactory expression of his powers and personality—they may effect nothing less than a transformation of industrial and of national life. They will do little if the representatives of the Employers' Associations and the Trade Unions meet as the exponents of separate interests with no other object than that of effecting a compromise between their competing claims. They will do much if the members of the Councils and Committees learn to regard themselves as representatives of Industry as a whole, concerned with both its economic and its human side and ready to follow the path of progress in whatever direction it may lead.

198. It would be unwise to expect too much at the start. Much of the early work of the Councils must necessarily be concerned with questions of constitution and machinery, and even when these preliminary questions have been settled, there are many initial difficulties to be overcome and many old prejudices to be laid aside before the Councils can develop their maximum utility. It is of the utmost importance that neither in the formation of Councils nor in their activities should any attempt be made to force the pace. It is essential to the success of the scheme that it should depend upon the voluntary initiative of all concerned. The formation of a Council under pressure and without the full and free approval of the Employers' Associations and the Trade Unions would inevitably frustrate the very purposes for which the Councils are formed. On the other hand, the problems of demobilisation and the return to peace conditions supply an irresistible argument for the formation of Councils in all industries which are sufficiently organised to permit of their establishment, and the Ministry of Labour deserves the thanks of the whole community for its proved willingness to render advice

and assistance in this respect. Further, the immediate problems arising from the return to peace conditions will afford ample opportunity for the Councils to prove their usefulness, and will enable both parties to the scheme to familiarise themselves with its working and to obtain that clearer understanding of each other's position which is essential to its success.

199. While the decision of the Ministry of Labour to treat recognised National Councils as the permanent channel of communication with the industries adds greatly to the value of the Councils, it would be a mistake to lay too much emphasis on this official relationship. The great advantage of the scheme is the opportunity offered to Industry to work out its own salvation, in the light of its own special knowledge.

200. At the same time it must be recognised that there is a certain danger in this industrial autonomy The possibility of Employers and Employed in any industry combining to exploit consumers or to put pressure upon the Government for the promotion of sectional interests must not be overlooked. It is true that the Government has the power of refusing to give legislative sanction to the proposals of the Councils; but this hardly meets the whole difficulty. It seems inevitable that if Joint Industrial Councils become common, some central organisation, representative of all important industries, should be created for the purpose of co-ordinating the action of the various Councils and adjusting the competing claims of overlapping or interconnected industries. In such case it will be necessary very carefully to consider and define the powers of such central organisation and its relation to Parliament, in order to guard against the possibility of steps being taken by this functional body or by the Industrial

Councils, which might prove detrimental to the interests of the general public, or to national life in its social aspects.

(*b*) Trade Boards.

201. It is obvious that the machinery above described can only be applied successfully in the case of industries which are already well organised and in which organisation has reached an approximately equal level of development among the Employers and the Workers. Unless this condition is fulfilled the Councils cannot be truly representative, nor can the two parties meet on an equal footing. For this reason the Ministry of Labour will treat as "recognised" Councils to be consulted on all questions affecting the industry, only those Councils which are set up in trades already well organised on both sides.

202. In the case of industries in which organisation is non-existent, imperfectly developed, or unequal, the Whitley Committee recommended an extension of the system of Trade Boards. The suggestion was originally made that in cases where organisation, although inadequate, was already in existence, Trade Boards should be combined with a modified form of Joint Industrial Councils; but this proposal has now been abandoned for the reasons set out in the Joint Memorandum by the Minister of Reconstruction and the Minister of Labour already cited. It is still considered possible that the establishment of a Trade Board, in addition to a Joint Industrial Council, may be necessary in well-organised but badly paid industries; but in general the functions of Trade Boards will be restricted to those industries in which organisation is not sufficiently developed to justify "recognition" of an Industrial Council.

203. The recommendations of the Whitley Committee with regard to Trade Boards have been given effect by the Trade Boards Act, 1918, to which reference has already been made in paragraph 82A. The scope of the Trade Boards with regard to wages and piece-rates was described in that paragraph : it remains to describe their constitution and their other functions.

204. A Trade Board is a statutory body constituted in accordance with Regulations made in pursuance of the Trade Boards Acts, and its authorised expenses are defrayed by the State. The Regulations may provide either for the election of representatives of employers and workers, or for their nomination by the Minister of Labour ; but inasmuch as the Boards are usually created in unorganised or incompletely organised trades, the method of nomination is usually adopted. Full weight is given to the recommendations of such Employers' Associations and Trade Unions as exist in the industry ; but members are also nominated to represent processes and districts not covered by the existing organisations, including homeworkers. In addition, a Trade Board comprises a small number (usually three) of neutral "appointed" members who can perform the function of conciliators and prevent a deadlock. Inasmuch as the minimum rates settled by the Board are enforceable by law, the demarcations of the industries covered are very carefully and precisely defined.

205. In addition to the regulation of wages, the scope of action of the Trade Boards has now been extended to cover many of the functions exercised by a Joint Industrial Council in fully organised industries. The Boards have power to attach conditions to the employment of apprentices or learners for the purpose of ensuring that they shall receive adequate and effective instruction.

They have an indirect control over hours of labour by their power to fix overtime rates ; for by fixing such rates at a high level they can make it unremunerative for employers to work excessive hours. In addition, they are empowered to report and make recommendations on any matter affecting working conditions in the industry, and it is provided that such recommendations shall be forthwith taken into consideration by any Government Department to which they are referred.

206. It will be seen that the constitution and scope of the Trade Boards differs widely from that of the Joint Industrial Councils. The Trade Boards are not, like the Councils, voluntary organisations set up by the industry itself, representative solely of the Employers' and Workers' organisations, and independent of State Control. Moreover, although their functions have been considerably extended by the Act of 1918, their primary function is still the fixing of minimum wage rates. Useful and important as their work must be in raising the level of wages and conditions in badly organised trades, they can never take the place of the Joint Industrial Councils as a medium of constructive co-operation between the parties to Industry. It is probable, however, that the establishment of Trade Boards may in many cases act as a spur to those engaged in the industry to bring their organisation up to the level which would render it possible to form a Joint Industrial Council and approach the Ministry of Labour with a request for recognition.

207. To the Final Report of the Whitley Committee,* five members of the Committee appended a reservation setting forth that Industrial Councils and Trade Boards,

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* Cd. 9153. Price 1*d*.

while likely to " afford an atmosphere generally favourable to industrial peace and progress," cannot, in their opinion, " be expected to furnish a settlement for the more serious conflicts of interest involved in the working of an economic system primarily governed and directed by motives of private profit."

208. In this reservation we may fully concur without necessarily sharing the views as to economic organisation by which it appears to have been inspired. It has already been urged in this Memorandum that the replacement of the existing industrial system, based on private enterprise, by a system of Guild or State ownership, is in the main a question of practical expediency, to be decided as such. It has further been suggested that in the index function of profits and prices, and in other factors and conditions of industrial life, there exist strong reasons against hasty or too confident generalisation as to the benefits of such a change. But whether the existing system be retained, modified, or abolished, Industry will fall short of playing its proper part in the life either of the individual or of the nation, so long as it is " primarily governed and directed " by the motive of personal advantage—whether that motive find expression in the desire to extort profit without rendering equivalent service, or in the acceptance of a standard rate of remuneration without conscientious performance of the work for which it is paid. Against the operation of this motive no economic system can, in itself, afford a guarantee ; for, however far it may prove practical to control profits or wages, it is not possible to compel the exercise by any man of his full powers of hand or brain. Any genuine renaissance of industrial life must depend upon the permeation of Industry as a whole by the idea of co-operation for public service as the dominant motive of

industrial activity. It is the chief virtue of the proposals outlined in the Whitley Reports, and the chief claim which can be made for the similar proposals contained in this Memorandum, that they would encourage and facilitate this transformation of motive, whether it is found desirable to replace or to preserve the existing economic system.

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